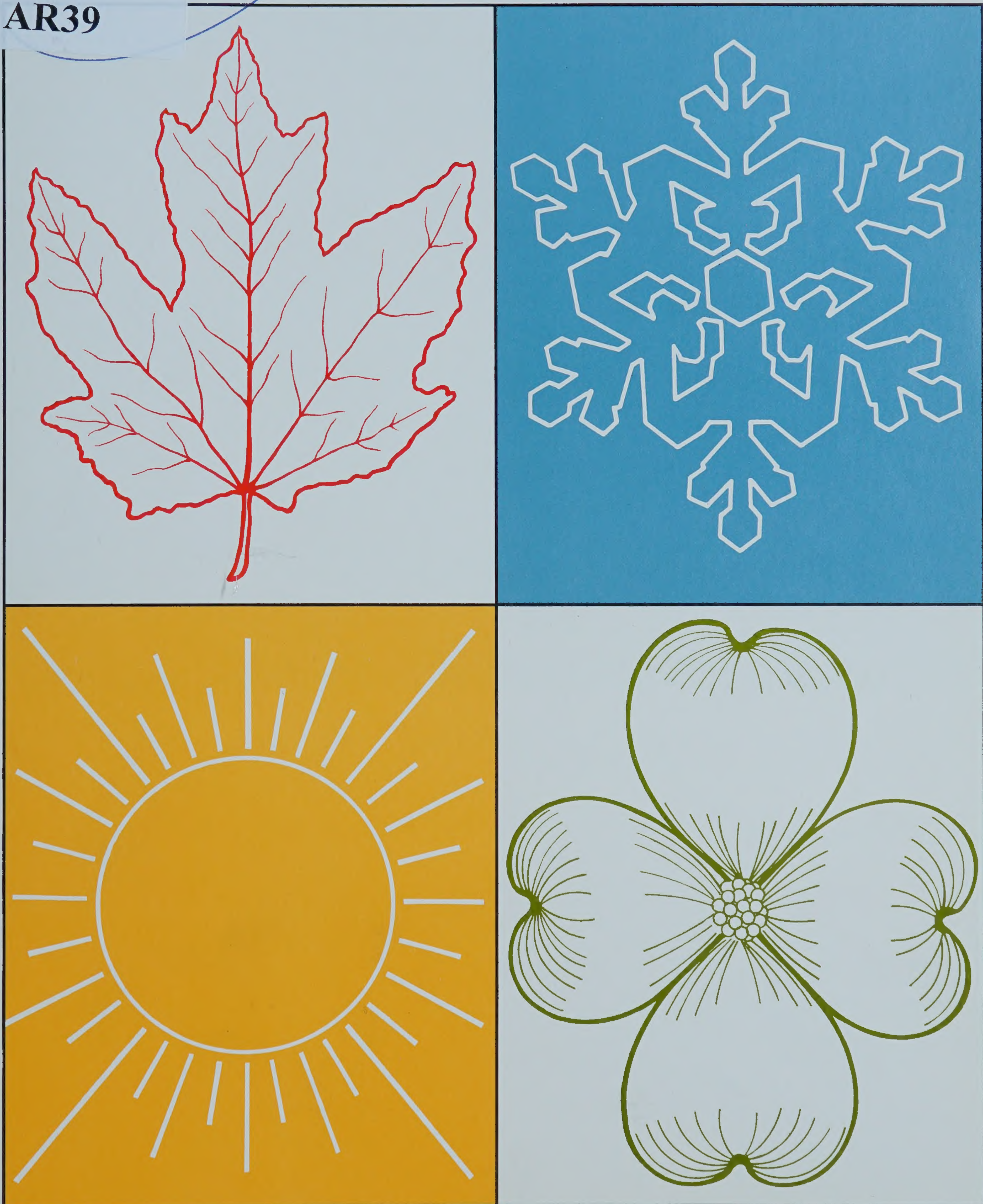
MURPHY
OIL CORPORATION

1971 ANNUAL REPORT



Whatever the season, whatever your taste in sports and regardless of whether you are a participant or a spectator, it's to be found somewhere in those parts of the world where Murphy Oil Corporation operates.

If it's a World Cup soccer match between Cagliari of Sardinia and Crystal Palace of England, perhaps it's better as a spectator. But if that's not what you fancy, variety abounds. On behalf of its neighbors, Murphy invites you to visit and join the fun.

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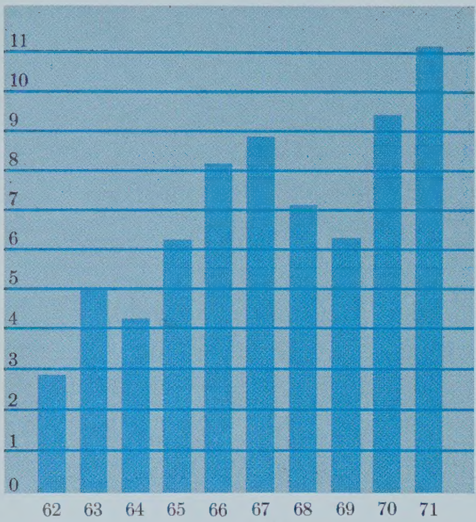
1971 Annual Report

Murphy Oil Corporation
200 Jefferson Avenue
El Dorado, Arkansas 71730

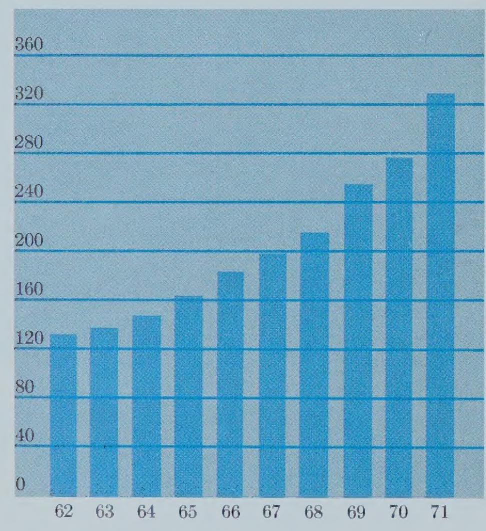
HIGHLIGHTS



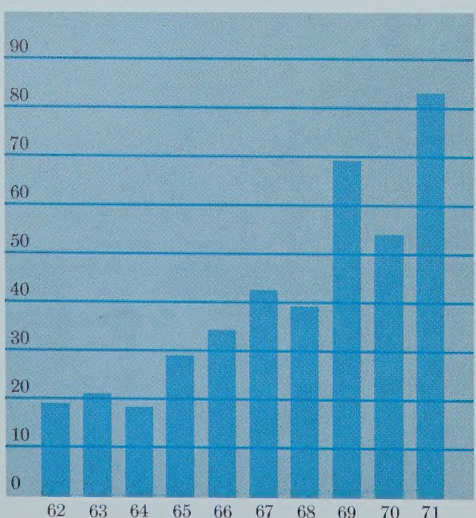
CONSOLIDATED INCOME
BEFORE EXTRAORDINARY ITEMS
(millions of dollars)

	1971	1970
FINANCIAL		
Revenues	**$328,584,000**	277,564,000
Income before extraordinary items	**11,100,000**	9,337,000
Per share	**2.01**	1.81
Net income	**11,100,000**	9,408,000
Per share	**2.01**	1.83
Cash flow	**38,804,000**	33,219,000
Dividends paid:		
Preferred and Preference Stock	**1,100,000**	1,124,000
Common Stock	**2,966,000**	2,722,000
Common Stock dividends per share	**0.60**	0.60
Capital expenditures	**66,306,000**	80,564,000
Funds provided by operations	**48,302,000**	37,595,000
Depreciation and depletion	**22,501,000**	17,167,000
Working capital	**83,400,000**	53,849,000
Long-term debt	**102,911,000**	123,605,000
Total assets	**492,123,000**	399,220,000
Stockholders' equity	**178,539,000**	142,680,000
STOCKHOLDERS AND EMPLOYEES		
Common stockholders—end of year	**5,322**	5,348
Common and Common equivalent shares—average outstanding	**4,976,148**	4,538,424
Employees—end of year	**3,250**	3,292
Salaries, wages and benefits	**$ 33,017,000**	29,396,000
OPERATING (Barrels a day except gas)		
Crude oil and gas liquids produced	**45,000**	43,200
Gas sold (thousand cubic feet a day)	**65,100**	61,700
Refinery runs	**64,000**	59,600
Petroleum products sold	**128,700**	116,300

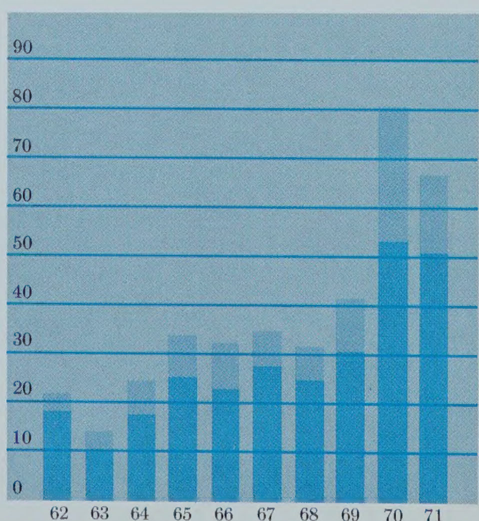
Cash flow is net income plus depreciation and depletion, amortization of undeveloped acreage costs, geophysical expense, dry hole contributions, dry holes, abandonments and deferred and noncurrent income taxes; minority interests are eliminated.



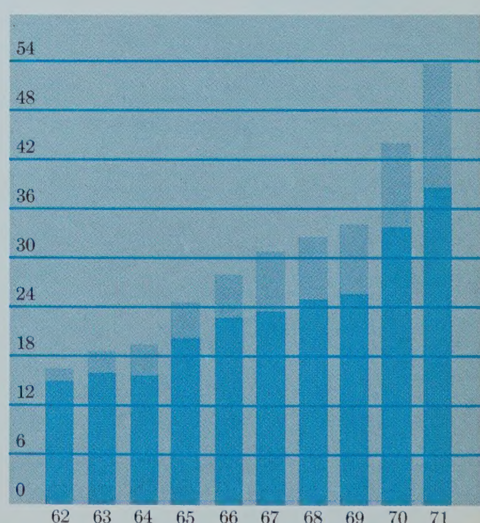
GROSS REVENUES (millions of dollars)



WORKING CAPITAL (millions of dollars)



CAPITAL EXPENDITURES
(millions of dollars)
Minority Interest



CASH FLOW (millions of dollars)
Minority Interest

TO THE STOCKHOLDERS

The year 1971 was the most turbulent in recent memory. Major influences making it so were successful demands by producing countries for higher tax reference prices for crude oil, devaluation of the U. S. dollar along with a worldwide realignment of currencies, violent swings in spot ocean shipping rates, imposition of wage and price controls in the United States and sharpened effect of concern for the environment on our business. We note with some satisfaction that Murphy Oil Corporation's earnings rose to a new record during this period.

Net income was $11.1 million, $2.01 a Common and Common equivalent share, compared with $9.4 million, $1.83 a Common and Common equivalent share, earned in 1970. Cash flow was also strong. It increased to $38.8 million, $7.58 a share, also a record, from $33.2 million, $7.07 a share, in 1970.

As may be seen on the opposite page, gross revenues, crude oil and gas production, refinery throughputs and refined product sales all increased, in some cases quite substantially. Profits from our worldwide contract drilling business advanced, and Murphy reentered the business of manufacturing lumber after an absence of some forty years.

These strong influences were held in check, to some extent because they are related, by successful demands on the part of the overseas producing country governments for higher payments to them, increased cost of purchased crude in North America, higher wages and salaries and generally increased costs of doing business. Exploration costs were also notably higher than in 1970.

The U. S. dollar was devalued for practical purposes by the President's emergency economic measures invoked on August 15, followed near year-end by a sweeping realignment of currencies throughout the world. Most of the cost of the currency realignment was provided for by charges to a reserve for foreign losses created by regular charges to income during the year. On a consolidated basis, the remainder of the revaluation cost, including hedging expense, was not significant. Revaluation expense in respect to that portion of long-term debt denominated in 75,100,000 Swiss francs will be charged to future operations if incurred. This potential loss is in effect offset in part by the lower rate of interest paid on strong currency loans.

As a generality, prices realized for our refined products were satisfactory except for gasoline at the retail level in the U.S.A. Specifically, realizations on industrial fuel and middle distillates were quite good on both sides of the North Atlantic during the first half, declining thereafter under influence of long inventories, falling spot tanker rates, a business slowdown and late arrival of winter, in about that order. The "bottom of the barrel" in the yields of our refineries at the head of the Great Lakes and on the Gulf Coast centers in asphalt and a high quality industrial fuel, respectively. These products were and are fairly immune to the pressures which brought down the price of fuels in Eastern Canada and Europe.

Exploration results during the year were checkered. At least two new oil fields were found in our stratigraphic testing program on large lease holdings near the route of our pipeline in Saskatchewan, Canada. A new oil field was discovered offshore Louisiana north of our Ship Shoal Block 113 Field. A well in which we have a small interest discovered a gas condensate field in Block 30/2 of the British sector of the North Sea. On the other hand, our drilling in the deeper sector of the Jurassic trend in Mississippi has been unsuccessful, no noteworthy finds have yet been made on the 11 blocks acquired in the December 1970 sale offshore Louisiana, and an important test in Norwegian waters of the North Sea was dry. The exploration program was supplemented by an outlay of $4,828,000 for producing properties in Saskatchewan and the East Texas Field.

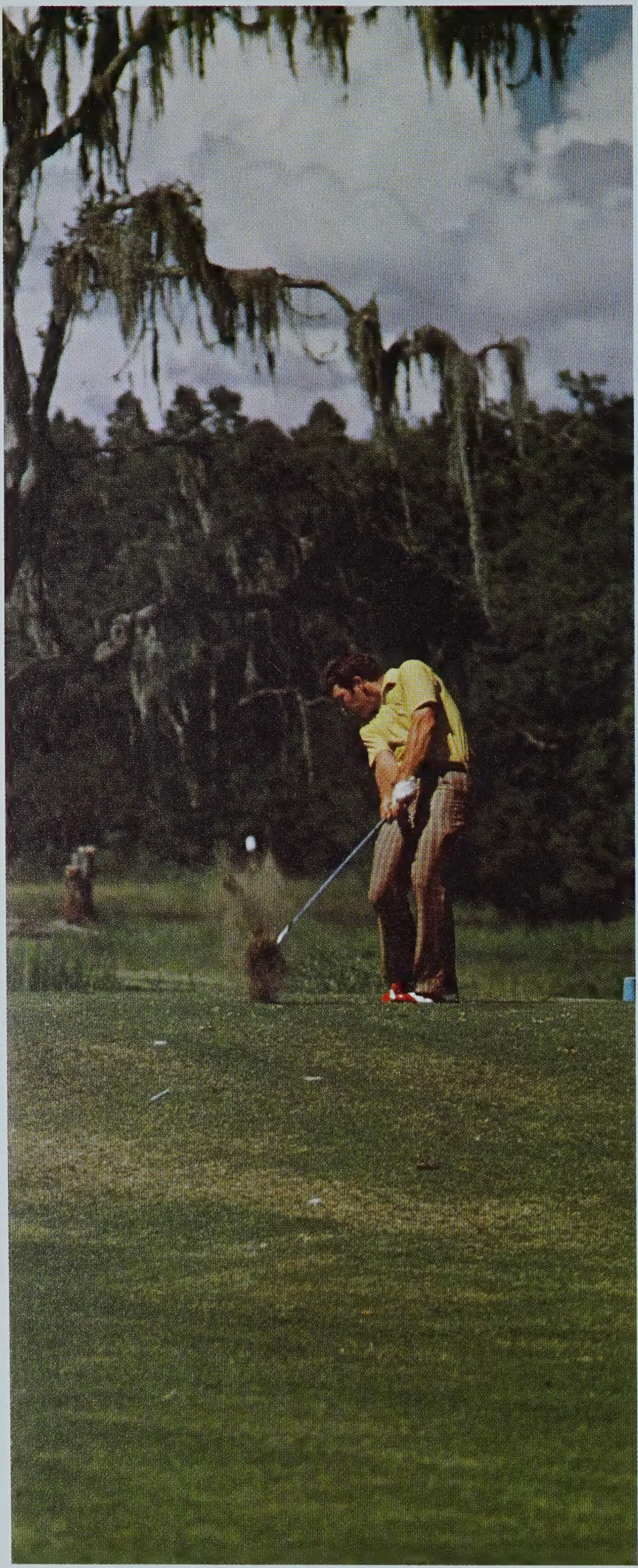
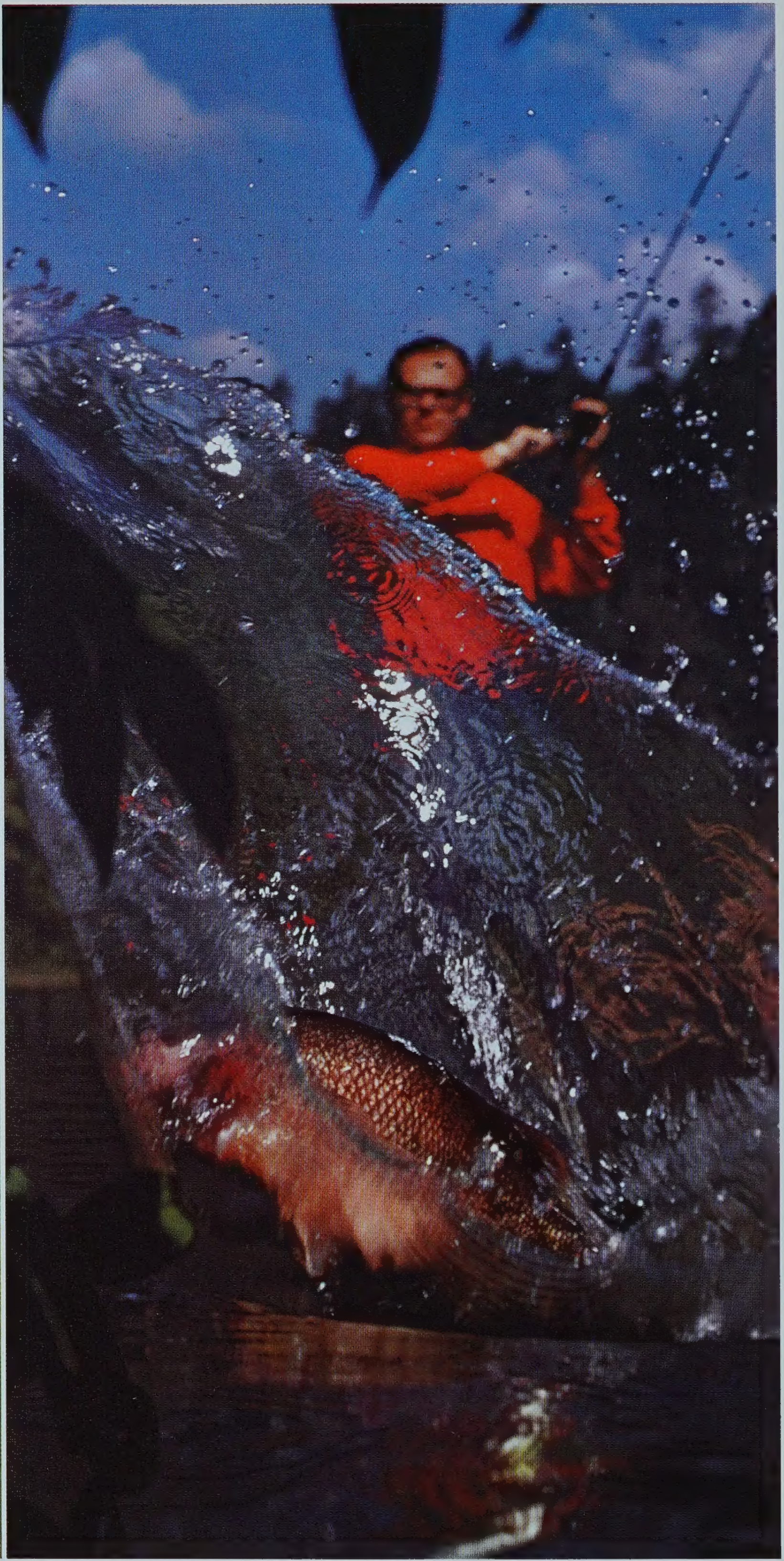
Murphy Oil Corporation is engaged in a three-sided capital expenditure program of large dimensions—refineries, expansion of the drilling barge fleet and ongoing exploration for new oil and gas.

The refineries are being equipped to make available no-lead and low-lead gasoline in each of our markets in anticipation of that requirement rather than waiting to react after it is visited upon us. At the same time, capacity of the plant near New Orleans is being doubled and its efficiency improved by replacing two small crude oil stills with a single column of advanced design.

Product yield of the expanded refinery will emphasize low-sulfur-content industrial fuel and middle distillates. We think these products will enjoy good demand because of fading natural gas supplies, environmental objections to coal and the later-than-expected advent of nuclear fuel owing to its lack of operating flexibility and public apprehension concerning its impact on the environment. Cost of the refinery projects will be about $25 million in 1971 and 1972.

Contract drilling has been an important and growing part of our business since 1953, when we organized Ocean Drilling & Exploration Company, a 51-percent-owned subsidiary. About $100 million has been invested by ODECO over those years to build a versatile fleet of drilling barges operating around the world. Now, rising tax-paid cost and concern for the security of oil in the traditional exporting nations are sparking a boom in exploration for supplies from alternate sources. The most likely are Arctic regions and continental shelves. Accordingly, through ODECO, we are exploiting our lead in offshore drilling by building six new barges at a cost of about another $100 million.

The search for new oil and gas will be carried out on several fronts. An exploration permit of 5,643 square miles was taken in Tunisia, and seismic surveys have been started. Reconnaissance seismic work on our large spreads offshore Eastern Canada and on Victoria Island in the high Arctic was completed. In both instances, it appears that structures worthy of testing by the drill are present. There will be still more drilling in the Gulf of Mexico, in the area of the Kerrobert Pipeline in Saskatchewan and in the Jurassic trend of the Southeastern United States. Development drilling will occur in the Persian Gulf, and more tests are planned for the

Golf and fishing are good throughout the Murphy territory. May we recommend 18 holes under the Spanish moss of Florida and a try at bass in a stream in Arkansas. Either is hard to beat.

North Sea. A New Zealand well planned for 1971 but delayed has been rescheduled for 1972. Capital provision has been made for acquisition of offshore leases in the Gulf of Mexico when sales are held.

To help make this ambitious three-sided program possible, additional equity capital was raised by Murphy and ODECO during 1971.

Murphy made a public offering of Common Stock. ODECO formed Ocean Oil & Gas Company, a 51-percent subsidiary, to expand and accelerate its exploration program in the Gulf of Mexico. ODECO also, by a rights offering to stockholders, sold a new Convertible Series of Cumulative Preferred Stock. Details of this financing are described in the Financial Review section of this report.

These additions of permanent capital and the increased rate of cash flow put the consolidated enterprise in good position to take advantage of the opportunities we think lie ahead.

Looking to 1972 and beyond, progress of earnings is likely to lag a bit in early quarterly periods, then to accelerate, we hope briskly. The sloping off will occur in consequence of two factors, one external, the other internal. Tempo of general business is rather slow, and this is arresting demand for industrial fuels in all of our markets and for gasoline in the U.S.A. Internally, the refinery additions and new drilling barges will not begin to come into service until late in the year and, until they do, will tend to restrain earnings because of interest during construction and start-up costs.

Thereafter these capital additions should join with the existing array of assets to lift earnings, modestly if business slackness persists, into new high ground if their advent coincides with an upturn in the business cycle.

C H Murphy Jr

President

March 3, 1972

OPERATING REVIEW

Efforts to solve a worldwide energy shortage and to protect the environment worked at cross-purposes for Murphy Oil Corporation during 1971. One brought on a need for expanded exploratory drilling and new and improved refining capacity while the other delayed or blocked some exploration, further frustrated the Company's efforts to establish a refinery in the United Kingdom and resulted in increased costs of refinery expansion and modernization in the United States.

PRODUCTION AND EXPLORATION

The Company added crude oil reserves by successful drilling programs in Canada and the Gulf of Mexico and through the purchase of producing properties in the United States and Canada. Important seismic surveys were completed, notably in the frontier areas of Canada.

Drilling in the Gulf of Mexico, principally through Murphy's affiliate Ocean Drilling & Exploration Company, resulted in a net of 5.55 producing wells. A greatly accelerated drilling program in Canada produced a net of 17.10 oil wells and a minor interest in a natural gas producer. The greatest concentration of drilling activity in Canada was in Saskatchewan with other drilling being done in Alberta, British Columbia and the Northwest Territories.

Some 1,185 barrels of oil a day were added to production in Canada with the acquisition of the Canadian assets of Manhattan Continental Development Corporation. The Manhattan properties are near the north end of the Kerrobert Pipeline, in which Murphy owns a majority interest and which connects the Lloydminster producing area to the Interprovincial Pipeline. These holdings include some 200 gross producing wells, production equipment and undeveloped acreage in the vicinity of the Kerrobert Pipeline.

In the United States, Murphy purchased a working interest in 19 producing wells in the East Texas Field. These are choice properties in one of the few remaining U. S. fields with significant standby productive capacity.

Gross production from the Sassan Field in the Iranian sector of the Persian Gulf averaged 134,000 barrels a day, a slight decrease from 1970. Additional drilling in the field, in which Murphy has a net interest of 12½ percent, was commenced near year-end. Desalting and stabilization equipment to process Sassan crude oil is expected to be in operation by mid-1972. These facilities should bring the export capability of the system to about the 200,000-barrel-a-day level.

In Libya, gross production from the Magid Field averaged 14,500 barrels a day and from the Mansour Field 2,300 barrels a day. Murphy has a one-sixth interest in each of these fields.

In Concession 104-A in Libya, where Murphy also has a one-sixth interest, a 1970 completion was successfully tested and a step-out well was drilled and tested. These wells are under study to determine whether their economics justify production.

Do you like plenty of action? If so, you want the chuckwagon race at the Calgary Stampede or a New Orleans Saints home football game. There's the crack of leather in either. Not for you? Then try a lazy afternoon of sailing along the Mississippi Gulf Coast or on Mobile Bay perhaps.

The major exploration activity inland in the United States in 1971 resulted in two expensive and disappointing tests of the Jurassic trend in Mississippi. After several months of drilling, these wells were abandoned at 20,600 and 23,400 feet. The Jurassic play in Mississippi, Alabama and Florida is of keen interest to Murphy, not only for its geological merit but because of its proximity to the Company's refinery near New Orleans. In 1972, Murphy geologists and geophysicists will be directing their attention to areas where prospective pays can be reached at shallower depths while rethinking the technology of ultra-deep portions of the trend.

Seismic programs were conducted in the offshore Nova Scotia area and in the Arctic islands of Canada. Murphy has extensive acreage in both of these relatively unexplored areas. Additional geophysical work is planned for 1972 in both areas.

In Venezuela, new tax rates have placed severe burdens on the Company's operations. It is unlikely that this cost increase can be passed on to consumers because of low long-haul ocean freight rates which give a considerable competitive edge to Middle East crude oil in the world markets. A diluent injection program on the Lot 9 concession, in which Murphy has an interest of 3.24 percent, increased that field's productive capacity to above 40,000 barrels a day, but market restrictions have held actual rates to about one-third of that capacity.

The Company participated in two wells in the British North Sea. One was dry, and the other, in Block 30/2, was completed and plugged after testing substantial quantities of natural gas and condensate. This discovery could be commercial if pipeline installation costs can be shared with other nearby discoveries. Continued exploration in the Norwegian sector of the North Sea and in Yorkshire, England resulted in two dry holes. The Company's joint cash bids on additional British North Sea acreage were unsuccessful, but it is confident of receiving additional blocks when service commitment concessions are awarded.

A third exploratory well is being drilled on the "W" structure, 70 miles northwest of Sassan Field in the Persian Gulf. This is a continuation of the program to evaluate a discovery made there in 1967.

ODECO submitted bids on several tracts in the December sale of Federal leases offshore East Louisiana. The Bureau of Land Management accepted and then impounded the sealed bids after an injunction had been issued by a U. S. District Court. Pursuant to the Court's order, the sale was delayed, and as a consequence, all bids expired January 27, 1972 and were returned unopened.

At the November 1971 drainage sale offshore Louisiana, ODECO and its partners were successful bidders on Block 108 South Timbalier. Exploration drilling on this block is scheduled for 1972.

Drilling offshore New Zealand was deferred because equipment was not available. This drilling has been rescheduled for late 1972.

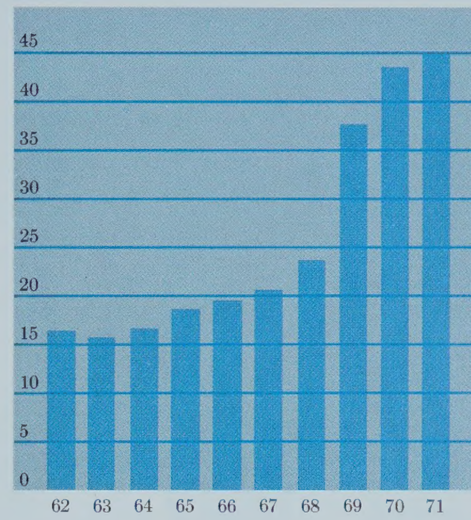
ODECO participated in an unsuccessful well off the east coast of the Republic of South Africa.

Murphy and ODECO have obtained an interest in concessions totaling 5,643 square miles onshore and offshore in Tunisia. Seismic surveys were completed in the offshore portions and are being evaluated. Onshore surveys are scheduled for 1972.

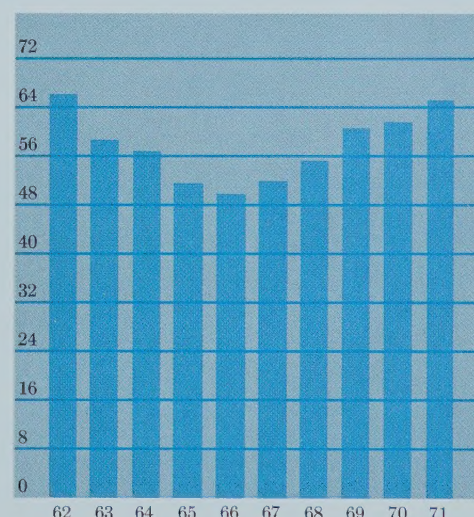
MANUFACTURING

Murphy's refineries at Superior, Wisconsin and Meraux, Louisiana are undergoing expansion and modification programs, making it possible to convert the Company's gasoline production to low-lead or no-lead as the demand for such fuels becomes more and more prevalent with the development and installation in automobiles of anti-pollution emission devices.

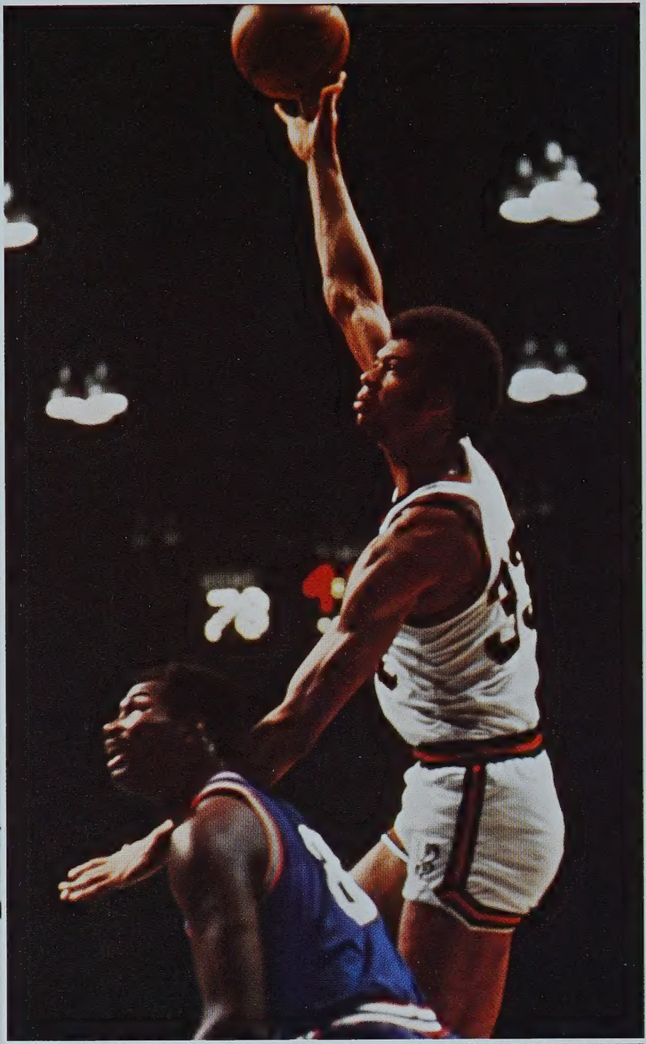
The larger program is under way at Meraux. It will be completed in August 1972 and will double Meraux's crude oil

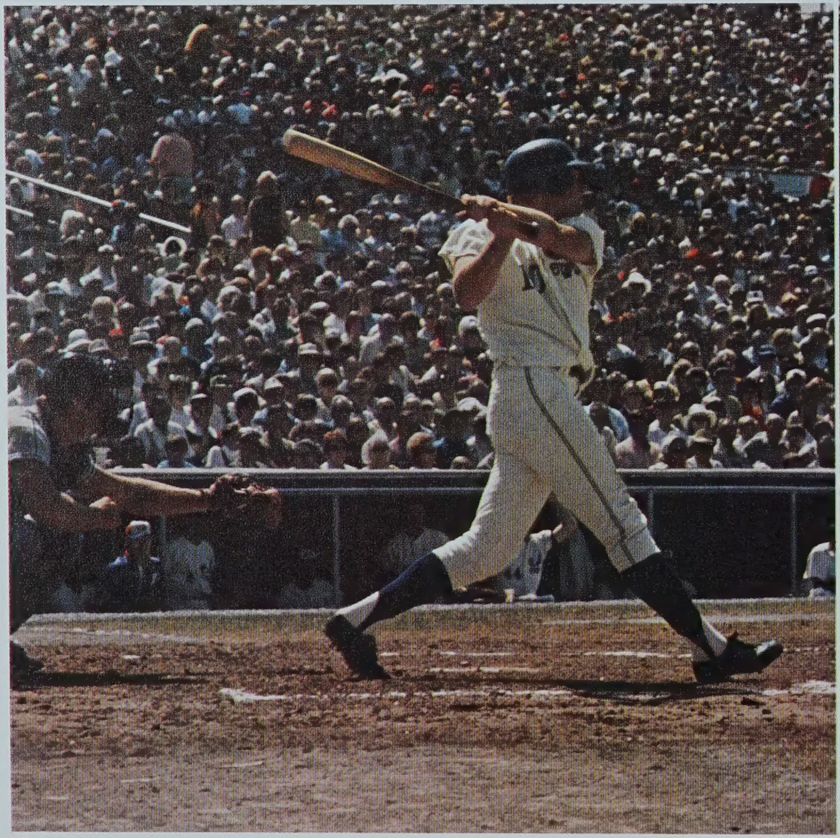


NET CRUDE OIL AND GAS LIQUIDS PRODUCTION
(thousands of barrels a day)



NET NATURAL GAS PRODUCTION
(millions of cubic feet a day)





If patience and stamina are your strong suits, there's great ice fishing in the lakes of Wisconsin. If it's stamina and no patience, it's not too far to Rhinelander, Wisconsin, the snowmobiling capital of the world. Its Hodag 50 is a classic. Both a bit strenuous? Then nothing could top a Milwaukee Bucks basketball game or a home baseball game with the Montreal Expos.

throughput capacity. Capacity of the Superior refinery will not be expanded. Construction there is aimed at eliminating the addition of tetraethyl lead to the gasoline produced and making anti-pollution changes beneficial to the Duluth-Superior community.

The British Ministry of Environment, in the latter part of 1971, rejected an application by Murphy and Ente Nazionale Idrocarburi to build a refinery on Canvey Island in the Thames estuary. This is the second time the British Government for ecological reasons has blocked the Company's efforts to build a United Kingdom refinery. However, with Murphy either acting alone or in a partnership, there is still reason to believe that a United Kingdom or Western European refinery will become a reality.

SUPPLY AND TRANSPORTATION

Acquisition of a tanker, the first full year of operation of a jointly owned products pipeline and the completion of a jointly owned crude oil pipeline were among significant events in the enterprise's supply and transportation activities in 1971.

The 10-year-old 20,000-deadweight-ton multi-grade clean products tanker was purchased to transport products from Mediterranean ports to the United Kingdom.

The 120-mile pipeline connecting the Meraux refinery with the Colonial and Plantation pipeline systems at Collins, Mississippi handled shipment of 4.26 million barrels of products for Murphy in its first full year of operation. This throughput is expected to increase considerably when the Meraux refinery expansion is completed.

The Company's Lone Rock-Kerrobert pipeline in Saskatchewan went into operation in April and carried more than 1.5 million barrels of Lloydminster blended crude for tender to the Interprovincial Pipeline for transportation to the Superior refinery. Murphy has increased its interest in the Kerrobert Pipeline from 45 percent to 52½ percent.

MARKETING

The Company sold record volumes of refined products in 1971, but prices were poor.

In the United States, only a token amount of the crude oil price increase which occurred in late 1970 was recovered in a products market that was depressed during much of the year. While retail prices were at near-normal levels when the price freeze was invoked, competitive pressures soon reduced gasoline prices to levels only slightly higher than those realized in 1970. Prices for other products, notably residual fuel oil and asphalt, were somewhat better.

A 9-percent increase in total products volumes in the United States partially offset the adverse effect of depressed gasoline prices. In its first year of operation, the asphalt blending plant at Rhinelander, Wisconsin made a significant contribution to a 30-percent increase in asphalt sales.

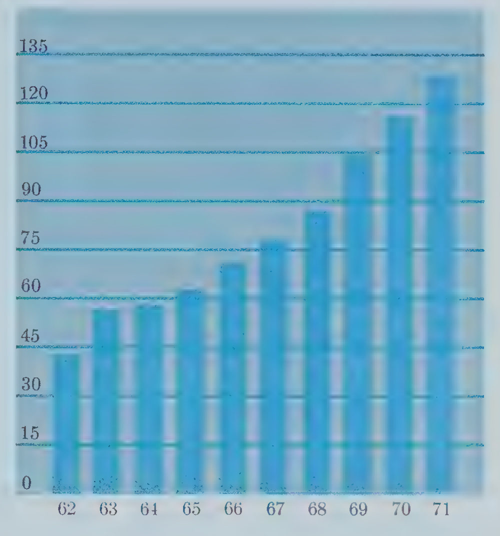
The Canadian marketing organization expanded its activities into new areas of Eastern Canada during the year, and even more expansion is planned for 1972.

Although there was virtually no increase in overall demand for gasoline in Quebec and Ontario, nevertheless the Company's refined products sales volumes in Canada increased 4 percent and contributed to a substantial gain in earnings. Significantly, the Company's average service station volume increased 15 percent.

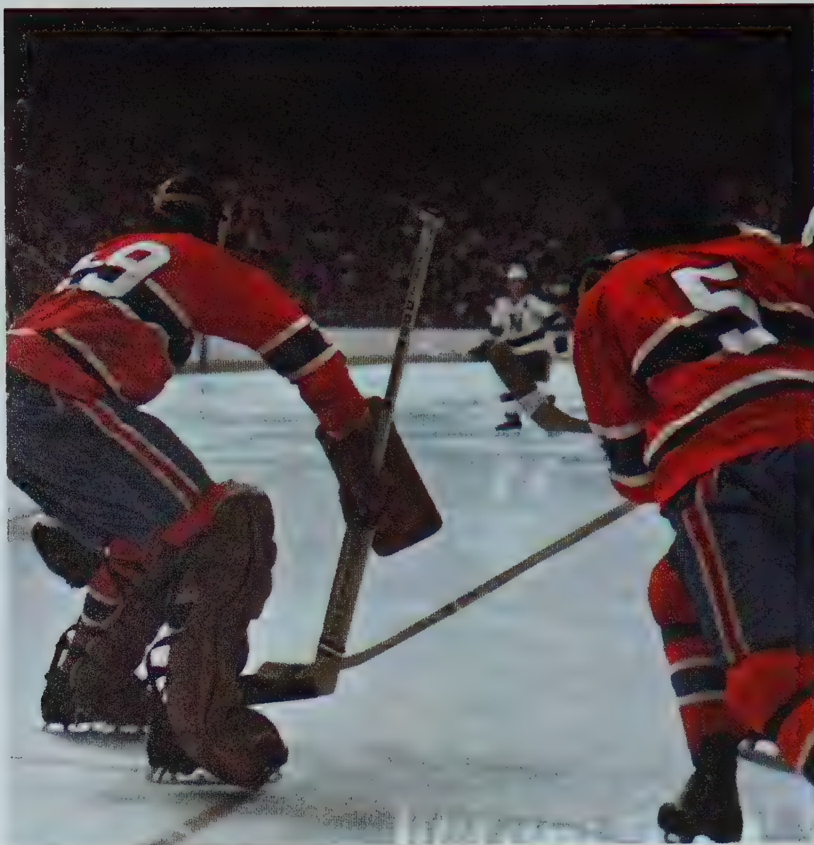
Responding to sharply higher costs for crude oil, transportation and operations, Canadian product prices improved early in the second quarter, but competitive forces caused a significant drop in the second half.

In Europe, prices were satisfactory during the first half of the year but fell after midyear because of high inventories, a business slowdown and unusually warm weather during the early winter months.

Retail sales revenues in Great Britain increased some 20 percent over 1970, but wholesale volumes there were lower,



REFINED PRODUCT SALES
(thousands of barrels a day)



So you like action as long as it's someone else who's getting the knocks. The Minnesota North Stars and the Montreal Canadiens play some great hockey—against each other at times. The University of Arkansas Razorbacks provide gridiron excitement almost any fall Saturday. It takes a special touch for curling, a Scottish game that's big in the Duluth-Superior area. Or you might like the exhilaration known by a hunter and his dogs when a pheasant takes flight.

resulting from products being sold more profitably in other European markets.

About half the population of Great Britain lies in the territory now covered by the Company's distribution network. Consistent with Murphy's plan of being selective as to geographic regions, products and type of customer, future capital investments in service stations will be in the southeastern part of the country.

In both the United Kingdom and the United States, personnel requirements were reduced somewhat, principally by changing to automation of certain terminals.

The marketing staff in the United States is studying the most profitable distribution of increased volumes of low-sulfur fuel oils which will be available from the Meraux refinery expansion. Some of this additional volume of fuel oils, together with Spur gasoline, will be marketed through a new terminal to be completed in mid-1972 on the Arkansas River at Little Rock, Arkansas.

Recognizing some of the advantages of self-service operation, Murphy has completed two prototype self-service stations at Memphis, Tennessee. These stations are of unique design, and one contains the first American-made electronic push-button blend pump. Additional self-service stations will be built.

Near Orlando, Florida, the Company has acquired sites for two service stations near the entrance to Walt Disney World. These stations should be completed in the second half of 1972.

CONTRACT DRILLING

Accelerated exploration drilling, stimulated by the worldwide energy shortage, has resulted in a large expansion program for the contract drilling industry. Murphy's affiliate Ocean Drilling & Exploration Company, which designed and built the first semi-submersible drilling barges for use in deep water, is maintaining its industry position by constructing five semi-submersible barges and a deepwater jack-up rig. A self-propelled semi-submersible rig and a self-propelled jack-up barge were delivered during 1971. Revenues generated by ODECO's 18 mobile drilling units in offshore regions of Japan, Australia, Norway, the United Kingdom and the Gulf of Mexico will generate much of the $100 million necessary to pay for this barge construction.

ODECO, with two jack-up rigs and two semi-submersibles, is presently the largest contractor in the North Sea. Ocean Victory is scheduled to be completed to join the North Sea fleet in the fall of 1972, and Ocean Voyager and Ocean Rover are scheduled for operations in mid-1973.

Ocean Traveler completed its contract work off the coast of the Republic of South Africa and returned to drilling in the North Sea, where it has performed well in spite of winds of as much as 100 miles an hour and waves in excess of 75 feet.

Ocean Tide, a self-propelled jack-up designed to work in water as deep as 250 feet, was completed in September and is expected to work in the North Sea during most of 1972.

Ocean Prospector, built jointly with Japanese interests, has been at work in the Sea of Japan since its delivery in 1971. Prospector, the first self-propelled semi-submersible, has performed well and is the prototype for four of the rigs now under construction, including Ocean Kokuei, now building in Japan and to be owned jointly with the same interests.

Ocean Digger is contracted to continue operations in Australian waters throughout 1972.

Ocean King, a 300-foot jack-up rig under construction for completion near the end of 1972, and Ocean Scout, a semi-submersible which is scheduled out of the shipyard in the first quarter of 1973, will be utilized in the Gulf of Mexico.

ODECO's drilling barge fleet is the largest in the Gulf and the only fleet that includes semi-submersible barges. The 12 ODECO barges operating in the Gulf of Mexico were employed during 94 percent of the total available rig days. The sale of Western Louisiana leases held in December 1970 is largely responsible for the continued demand for Gulf of Mexico equipment.

TIMBER AND FARMING

Deltic Farm & Timber Co., Inc. experienced an extraordinarily smooth start-up of its CHIP-N-SAW mill at Ola, Arkansas in early 1971, and subsequent operation of that plant has been highly satisfactory. Additional kiln and storage space was built to handle production from a second shift that was added early in 1972.

Prices for lumber and sawlog stumpage were at favorable levels during 1971 as a result of a high rate of housing construction throughout the country. Deltic made some minor timberland acquisitions during the year and continued to harvest its timber at a rate slightly below the growth rate of its timber stands.

Deltic's farming operations were hampered by bad weather, and yields of soybeans and cotton were well below average. Prices for both products were good but not sufficient to offset the reduced production.

PERSONNEL

Total employment by the enterprise continued to decline in 1971, largely because of the reduction in the number of Company-operated service stations. Relations with employees remained good, and two-year contracts were signed with the employee bargaining units at the two refineries.

A continuing employee development curriculum was created during the year to provide counseling, human relations training, programs for the disadvantaged and semiliterate, and technical-managerial development of supervisors. The first in a series of supervisory orientation programs was presented in 1971.

During the year, Jerry W. Watkins, who has been general attorney for the Company, was named general counsel in addition to his duties as corporate secretary. H. Y. Rowe, assistant general attorney, succeeded Mr. Watkins as general attorney.

There are thrills and spills on skis—on snow or water. Each sport has its enthusiasts. There's opportunity for either in Murphy country. One or both may suit your fancy.

EARNINGS

Consolidated net income was $11,100,000, equal to $2.01 a Common and Common equivalent share after providing $1,098,000 for dividends on the Preferred and Preference Stock. Consolidated net income for 1970 was $9,408,000 or $1.83 per Common and Common equivalent share, including a net extraordinary gain of $71,000, 2 cents a share. Dividends on the Preferred and Preference Stock were $1,122,000 in 1970. Common and Common equivalent shares outstanding averaged 4,976,148, compared with an average of 4,538,424 in 1970.

Cash flow for the year was $38,804,000, equal to $7.58 per Common and Common equivalent share, compared with $33,219,000 or $7.07 per share in 1970.

REVENUES

Consolidated gross revenues were $328,584,000, exceeding $300,000,000 for the first time. This was an 18.4-percent improvement over 1970. Sales increased 17.3 percent to $275,338,000 from $234,811,000 in 1970. Revenues from sales of refined products were $238,795,000 in 1971, compared with $203,987,000 a year earlier. This 17.1-percent improvement reflects increased sales volumes for all products in almost all marketing areas and was attained despite the depressing effect of lower gasoline prices in the United States. Farm products, lumber and timber sales increased from $1,943,000 in 1970 to $3,613,000 in 1971. Below average crop yields due to adverse weather were more than offset by higher timber prices and the sale of lumber from a new CHIP-N-SAW mill which began operations in March. Other sales consisting principally of crude oil and natural gas sales were $32,930,000, compared with $28,881,000 in 1970. This increase is the result of higher prices and an increase in average daily production of crude oil and gas liquids from 43,200 barrels a day to 45,000 barrels a day. This added production came from more producing wells and increases in proration allowables.

Drilling and other operating revenues were $46,577,000, an increase of $10,214,000 or 28.1 percent over 1970. Most of this rise occurred in contract drilling revenues and was due to additions to the drilling fleet made at mid-year 1970 being in operation for the full year of 1971 and to the completion of construction of one other barge during the year. Barge days utilized totaled 5,845, compared with 4,911 in 1970.

Interest and other income increased $279,000 to $6,669,000, mainly due to interest earned on short-term investment of surplus working capital.

COSTS AND DEDUCTIONS

Consolidated costs and deductions were $317,484,000 for the year, compared with $268,227,000 a year earlier. In 1971, costs and deductions were 96.6 percent of total revenues, unchanged from 1970. Costs of crude oil and related lifting costs, purchased products, product distribution costs, refinery, CHIP-N-SAW mill and agricultural operating expenses amounted to $207,681,000, an increase of $32,540,000 or 18.6 percent over 1970. In addition to the cost increases associated with greater crude oil and gas liquids production and volumes of refined products sold, $1,269,000 representing CHIP-N-SAW mill operating expenses were incurred for the first time during 1971. Other factors contributing to the increase in costs were higher wages and higher prices paid for crude oil, materials and supplies and increased charges for utilities and like items of expense.

More contract drilling activity, reflecting in part a full year's operation of the barges added to the fleet in mid-1970 and the 1971 addition, increased drilling barge and other operating expenses 14.3 percent to $17,510,000. This increase also included wage increases and higher prices for operating materials and other supplies.

Exploration expenses were $13,395,000, compared with $10,215,000 for 1970. Costs of dry holes and abandonments included in exploration expenses totaled $7,855,000 in 1971, up from $6,846,000 in 1970. The biggest portion of the increase in other exploration expenses represented geological and geophysical expenses and an increase in amortization of nonproducing Gulf of Mexico leases arising from recent acquisitions.

Selling and general expenses were $22,209,000 in 1971, compared with $21,563,000 in 1970. This $646,000, 3-percent increase resulted from expanded operations and higher salaries and wages and inflationary factors tempered by the results of continued cost reduction efforts. Selling and general expenses were 6.8 percent of total revenues in 1971, compared with 7.8 percent in 1970.

An increase of $5,334,000, 31.1 percent, to $22,501,000 in depreciation and depletion reflects the additional depletion and depreciation related to increased crude oil and gas liquids production plus the additional depreciation associated with additions to property, plant and equipment. A significant factor in this regard was the full year's depreciation on the mid-1970 additions to the drilling fleet, depreciation on the new barge and about nine months' depreciation on the CHIP-N-SAW mill.

Taxes other than income taxes for the year were $5,039,000, up from $4,548,000 in 1970. Excise taxes of $130,563,000 were collected and remitted to certain governmental agencies during the year.

Interest expense was $8,821,000, an increase of $1,004,000 over 1970. Most of this increase is attributable to a modest increase in average debt, including current maturities, outstanding during 1971 over 1970.

Federal and state income taxes decreased $916,000 to $3,634,000 in 1971. Provisions for foreign income taxes were $11,107,000 in 1971, compared with $7,398,000 in 1970. Of the $3,709,000 increase, $3,298,000 occurred in Iran.

CAPITAL EXPENDITURES

Consolidated capital expenditures were $66,306,000 for the year, compared with $80,564,000 in 1970. Additions to property, plant and equipment, which totaled

$57,160,000, a decrease of $15,632,000 from 1970, are detailed in the Statement of Changes in Financial Position. Capital expenditures, principally dry hole costs, charged to operations were $9,146,000.

Consolidated capital expenditures for production and exploration aggregated $28,442,000. Of this amount, $7,612,000 was spent in inland United States, $11,617,000 offshore in the Gulf of Mexico, $6,895,000 in Canada, $750,000 in North Africa, $531,000 in the Middle East, $541,000 in the British North Sea and $496,000 in other areas.

Manufacturing Department expenditures were $9,333,000—$6,438,000 at Meraux, Louisiana and $2,895,000 at Superior, Wisconsin. The Meraux expenditures were mostly for the installation of additional facilities to increase the input flexibility, change the product yield and more than double the refinery throughput capacity. This refinery addition will have cost about $20,000,000 when completed in the third quarter of 1972. At Superior, most of the capital expenditures are for refinery additions required to increase low-lead or no-lead gasoline production capability. The cost of these facilities is estimated at $5,300,000 when completed in the last half of 1972.

Expenditures totaling $6,451,000 were made for service station construction, station modernization, site acquisitions, terminals and other marketing facilities. Of the total expenditures, $3,517,000 was spent in the United States, $1,760,000 in Eastern Canada and $1,174,000 in the United Kingdom.

Completion of the self-propelled jack-up rig Ocean Tide and progress payments in connection with the construction of the semi-submersible drilling barge Ocean Scout, the self-propelled semi-submersible barges Ocean Voyager and Ocean Victory and the jack-up drilling rig Ocean King cost $13,564,000. Additions to other barge equipment and barge modernization brought the total capital expenditures for drilling barges and equipment to $16,341,000.

Expenditures for transportation equipment and facilities were $3,925,000. Included in this amount is the purchase cost of a 10-year-old 20,000-deadweight-ton clean products tanker and the completion costs of a crude oil pipeline in Saskatchewan, Canada.

Other significant expenditures included $424,000 for completion of the $1,500,000 CHIP-N-SAW mill at Ola, Arkansas and $555,000 for subsea pipeline repair and diving equipment.

CAPITAL EMPLOYED

In June, Murphy Oil Corporation sold 808,550 shares of Common Stock, including 158,550 shares that were purchased by the underwriters through the exercise of a warrant held by an insurance company. Proceeds of this sale were $25,730,000.

During the year, significant changes occurred in the capital structure of Ocean Drilling & Exploration Company. In the second quarter, ODECO called for redemption its outstanding 5½% Convertible Subordinated Debentures due July 1, 1994. Substantially all of the debentures were tendered for conversion. Also in the second quarter, ODECO organized a 51-percent-owned subsidiary, Ocean Oil & Gas Company. That company sold 49 percent of its Common Stock in a public offering. The $23,100,000 net proceeds of this sale will be used to finance crude oil and gas exploration activities of Ocean Oil & Gas, initially in the Gulf of Mexico offshore Louisiana. During the fourth quarter, the ODECO stockholders authorized a two-for-one stock split effective November 15, and ODECO sold 500,415 shares of Cumulative Preferred Stock, 6% Convertible Series, $50 par value, principal amount $25,020,750, under a rights offering. Murphy Oil Corporation exercised its rights under the terms of the offering and acquired 254,526 shares at a cost of $12,726,300.

At year-end, working capital was $83,400,000, an increase of $29,551,000 for the year. Long-term debt decreased $5,753,000 during the year to $128,860,000, including current maturities of $25,949,000 for year-end 1971 and $11,008,000 for year-end 1970.

Stockholders' equity increased $35,859,000 during 1971 and totaled $178,539,000 at December 31. During the year, cash dividends at the rate of 60 cents a share, $2,966,000, were paid on the Common Stock.

STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of Murphy Oil Corporation and its significant majority-owned subsidiaries except for a foreign insurance company which is accounted for on an equity basis. Corporate joint ventures and significant investments in 20 percent or more of the voting stock of affiliates are accounted for by the equity method. Such items were not significant in prior years.

As the result of the changing political climate in foreign areas of operation and because currency fluctuations are becoming more prevalent, in 1971 the Company established a reserve for loss from foreign operations by regular charges against income.

Foreign currencies are translated into United States dollars as follows: property, plant and equipment, deferred charges, investments and long-term debt at rates prevailing when acquired or incurred; other assets and liabilities at year-end rates; revenues and expenses at average rates during each year, except for provisions for depreciation, depletion and amortization which are based on the United States dollar equivalents of the related assets. Gains and losses resulting from currency realignments are charged or credited to the reserve for foreign operations with the exception that a subsidiary engaged primarily in contract drilling includes such items in income. All translation gains and losses due to normal fluctuations in exchange rates are reflected in income.

The Company amortizes goodwill arising from acquisitions over periods of from five to ten years.

Inventories—Inventories of finished products are stated at the lower of cost (applied on a first-in, first-out basis) or market. Inventories of crude oil in the United States and Canada are stated at market prices. Crude oil inventories located in foreign areas are stated at the lower of cost or estimated realizable value. Materials and supplies are valued at the lower of average cost or estimated value.

Exploration and Development—Geological and geophysical expenditures which result in the acquisition or retention of undeveloped leaseholds are capitalized. If production is obtained, appropriate leasehold costs are transferred to producing oil and gas properties. The cost of that portion of undeveloped leaseholds estimated at the time of acquisition to be nonproductive is amortized over the estimated holding period of the leases. Intangible development costs on productive wells are capitalized for financial reporting purposes, but for Federal income tax purposes all such costs are taken as deductions. Dry hole costs, lease rentals and other exploration expenses are charged against earnings as incurred.

Depreciation and Depletion—Depreciation and depletion of producing oil and gas properties are computed on the unit-of-production method based on estimated recoverable oil and gas reserves for each separate property except for properties located in the Gulf of Mexico. Gulf properties are combined and treated as one property by the Company and each subsidiary owning such leaseholds. Depreciation of refining and marketing facilities, drilling barges and related equipment, and other properties is calculated on the composite straight-line method.

Asset Retirements—Disposals or retirements which are extraordinary in nature and amount or which include an entire depreciable or depletable property unit are accounted for by charging or crediting income with the residual cost, adjusted for salvage or other proceeds. Upon disposal or retirement of less than an entire depreciable or depletable unit, the cost of the properties less salvage or other proceeds is charged or credited to the related reserves for depreciation and depletion.

Maintenance and Repairs—Provisions are made for refinery turnarounds and major repairs to drilling barges by charges against current income. Other maintenance and repair costs are charged against earnings as incurred. Renewals and betterments are capitalized.

Income Taxes—Provision is made in the accounts to reflect the interperiod allocation of income taxes resulting from certain income and expenses being treated differently for financial reporting purposes than for tax computation purposes. Principal items so treated are amortization of nonproducing leases, provisions for major barge repairs and refinery turnarounds, and accelerated depreciation. Deferred tax accounting is practiced by the Company because it is required by Opinion No. 11 of the Accounting Principles Board, American Institute of Certified Public Accountants. The flow-through method is used to account for investment tax credit.

Employee Retirement Plans—The Company and its subsidiaries have trusteed retirement plans covering substantially all of their employees. Prior service cost is amortized over varying periods up to 20 years and is funded as it accrues. Gains or losses resulting from changes in actuarial assumptions are spread over 10 years.

Excise Taxes—Taxes collected on the sale of products and remitted to governmental agencies are not included in revenues or costs and deductions.

Earnings per Share—Net income per Common and Common equivalent share is computed in accordance with Opinion No. 15 of the Accounting Principles Board, American Institute of Certified Public Accountants. Accordingly, net income per Common and Common equivalent share is computed by dividing the weighted average number of Common and Common equivalent shares outstanding during each year into net income applicable to such shares after deducting dividends attributable to the Preferred and Preference shares. Common share equivalents include the Company's exercisable options and a warrant which was exercised in 1971. The weighted average number of Common shares outstanding in each year is increased by the number of Common equivalent shares determined by the Treasury Stock method.

STATEMENT OF INCOME—YEARS ENDED DECEMBER 31, 1971 AND 1970

	1971	1970
REVENUES		
Sales	$275,338,000	234,811,000
Drilling and other operating revenues	46,577,000	36,363,000
Interest and other income	6,669,000	6,390,000
Total revenues	328,584,000	277,564,000
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	207,681,000	175,141,000
Drilling barge and other operating expenses	17,510,000	15,326,000
Exploration expenses	13,395,000	10,215,000
Selling and general expenses	22,209,000	21,563,000
Depreciation and depletion	22,501,000	17,167,000
Taxes other than income taxes	5,039,000	4,548,000
Interest expense	8,821,000	7,817,000
Federal and state income taxes	3,634,000	4,550,000
Foreign income taxes	11,107,000	7,398,000
Minority interests' income	5,587,000	4,502,000
Total costs and deductions	317,484,000	268,227,000
INCOME BEFORE EXTRAORDINARY ITEMS	11,100,000	9,337,000
Extraordinary items less income taxes of $70,000:		
Reduction in crude costs due to additional import quota for 1968 and 1969	—	740,000
Expenses related to abandoned refinery project	—	(669,000)
NET INCOME	$ 11,100,000	9,408,000
Per Common and Common equivalent share:		
Income before extraordinary items	$2.01	1.81
Net income	2.01	1.83

See statement of accounting policies and notes to financial statements, pages 15 and 20.

BALANCE SHEET—DECEMBER 31, 1971 AND 1970

	1971	1970
ASSETS		
Current assets:		
Cash	$ 20,418,000	12,292,000
Certificates of deposit	60,648,000	27,600,000
Marketable securities, at cost which approximates market	15,697,000	5,271,000
Accounts receivable, less allowance for doubtful accounts of $1,185,000 in 1971 and $1,282,000 in 1970	58,238,000	57,252,000
Inventories of crude oil and finished products	37,821,000	34,021,000
Materials and supplies	4,349,000	3,832,000
Total current assets	197,171,000	140,268,000
Investments and noncurrent receivables, principally at cost	18,540,000	11,279,000
Property, plant and equipment, at cost less reserves	269,283,000	238,729,000
Deferred charges and other assets	7,129,000	8,944,000
	$492,123,000	399,220,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term notes, payments due within one year	$ 25,949,000	11,008,000
Notes payable	17,220,000	5,712,000
Accounts payable and accrued liabilities	57,265,000	58,063,000
Income taxes	13,337,000	11,636,000
Total current liabilities	113,771,000	86,419,000
Long-term notes payable	77,911,000	88,840,000
Convertible debentures	25,000,000	34,765,000
Deferred and noncurrent income taxes	10,770,000	9,212,000
Reserves for major repairs	3,676,000	2,979,000
Deferred credits and other liabilities	3,668,000	801,000
Minority interests in subsidiaries	78,788,000	33,524,000
Stockholders' equity	178,539,000	142,680,000
	$492,123,000	399,220,000

See statement of accounting policies and notes to financial statements, pages 15 and 20.

STATEMENT OF STOCKHOLDERS' EQUITY—YEARS ENDED DECEMBER 31, 1971 AND 1970

	1971	1970
CAPITAL STOCK		
Cumulative Preferred Stock, Series A, 6¼%, par $100, authorized and issued 30,755 shares (35,797 in 1970)	$ 3,075,000	3,580,000
Cumulative Preference Stock, par $100, authorized 400,000 shares; 5.20% Series, issued 171,551 shares (171,570 in 1970)	17,155,000	17,157,000
Common Stock, par $1.00, authorized 8,000,000 shares, issued 5,360,948 shares (4,552,351 in 1970)	5,361,000	4,552,000
Capital Stock at end of year	25,591,000	25,289,000
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	64,139,000	64,136,000
Add:		
Excess of net proceeds over par value of 808,550 shares of Common Stock sold, including 158,550 shares upon exercise of a warrant	24,824,000	—
Increase in the Company's share of a subsidiary's capital in excess of par value arising from the sale of Common Stock by the subsidiary	4,067,000	—
Conversion of 19 shares of Cumulative Preference Stock, 5.20% Series into 47 shares of Common Stock	2,000	—
Excess of proceeds over par value of Common Stock sold upon exercise of options	—	3,000
Deduct cost of debenture conversion and unamortized debt expense of a subsidiary	221,000	—
Capital in Excess of Par Value at end of year	92,811,000	64,139,000
RETAINED EARNINGS		
Balance at beginning of year	53,559,000	47,997,000
Add net income for the year	11,100,000	9,408,000
Deduct:		
Cash dividends:		
Preferred and Preference Stock	1,100,000	1,124,000
Common Stock—$0.60 a share	2,966,000	2,722,000
Cost of issuance of Preferred Stock by a subsidiary	209,000	—
Retained Earnings at end of year	60,384,000	53,559,000
Less treasury stock, 12,610 shares of Common Stock in 1971 and 15,640 shares in 1970, at cost	247,000	307,000
TOTAL STOCKHOLDERS' EQUITY	$178,539,000	142,680,000

See statement of accounting policies and notes to financial statements, pages 15 and 20.

STATEMENT OF CHANGES IN FINANCIAL POSITION—YEARS ENDED DECEMBER 31, 1971 AND 1970

	1971	1970
FUNDS PROVIDED		
Operations:		
Income before extraordinary items	$ 11,100,000	9,337,000
Add noncash charges to income:		
Depreciation, depletion, amortization, etc.	25,072,000	18,657,000
Deferred and noncurrent income taxes	1,617,000	2,498,000
Minority interests' income	5,587,000	4,502,000
Other	4,926,000	1,553,000
Funds provided by operations before extraordinary items	48,302,000	36,547,000
Extraordinary items and related deferred and noncurrent income taxes	—	1,048,000
Funds provided by operations	48,302,000	37,595,000
Sale of Common Stock by the Company	25,692,000	—
Sale of Common and Preferred Stock by subsidiaries	35,182,000	—
Issuance of long-term notes payable	28,778,000	34,471,000
Issuance of Common Stock by a subsidiary on conversion of debentures	9,686,000	—
Sales of property	1,339,000	4,387,000
Other	3,145,000	3,379,000
Total funds provided	152,124,000	79,832,000
FUNDS APPLIED		
Additions to property, plant and equipment:		
Production and exploration	19,246,000	29,515,000
Manufacturing	9,333,000	3,057,000
Marketing	6,451,000	8,217,000
Drilling barges and equipment	16,341,000	25,683,000
Transportation	3,925,000	3,664,000
Farm, timber and other	1,864,000	2,656,000
Total	57,160,000	72,792,000
Long-term notes paid and currently payable	39,708,000	14,864,000
Conversion and redemption of debentures issued by a subsidiary	9,765,000	—
Dividends	4,066,000	3,846,000
Investments, noncurrent receivables and deferred charges	7,430,000	1,513,000
Other	4,444,000	2,737,000
Total funds applied	122,573,000	95,752,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ 29,551,000	(15,920,000)
Changes in working capital:		
Cash, certificates of deposit and marketable securities	$ 51,600,000	(6,693,000)
Accounts receivable	986,000	6,314,000
Inventories	4,317,000	8,908,000
Long-term notes, payments due within one year	(14,941,000)	(4,297,000)
Notes payable	(11,508,000)	(1,545,000)
Accounts payable and accrued liabilities	798,000	(12,962,000)
Income taxes	(1,701,000)	(5,645,000)
	$ 29,551,000	(15,920,000)

See statement of accounting policies and notes to financial statements, pages 15 and 20.

Notes to Financial Statements

(*See page 21 for details of long-term debt*)

Assets Employed and Net Income—Geographically—A summary of the approximate geographical distribution of assets employed at December 31, 1971 and of net income for 1971 follows:

	North America	*Other Western Hemisphere*	*Eastern Hemisphere*	*Total*
Assets employed	$347,856,000	20,177,000	124,090,000	492,123,000
Net income	$ 4,715,000	1,291,000	5,094,000	11,100,000

The distribution of net income is based on prevailing area market prices. Corporate overhead, Federal income taxes and interest expense have been allocated.

Property, Plant and Equipment—Investment in property, plant and equipment at December 31, 1971 and 1970 is summarized as follows:

	1971	*1970*
Production and exploration	$183,903,000	167,948,000
Manufacturing	45,757,000	37,112,000
Marketing	61,815,000	57,440,000
Drilling barges and equipment	111,077,000	95,364,000
Transportation	8,909,000	4,616,000
Farm, timber and other	15,121,000	13,512,000
	426,582,000	375,992,000
Reserves for depreciation, depletion and amortization	157,299,000	137,263,000
	$269,283,000	238,729,000

Income Taxes—Income taxes for 1971 include the following:

	Federal and State	*Foreign*	*Total*
Current	$3,784,000	9,312,000	13,096,000
Deferred and noncurrent	(150,000)	1,795,000	1,645,000
	$3,634,000	11,107,000	14,741,000

Federal income taxes have been reduced by investment tax credit of $186,000. Unused investment credit of approximately $985,000 at December 31, 1971, not reflected in the financial statements, is available to reduce taxes in future years subject to the limitations on carryover.

Employee Retirement Plans—Retirement plan costs for 1971 were $800,000 and included $153,000 for the amortization of prior service cost. Unfunded prior service cost is approximately $1,553,000. Retirement plan funds plus balance sheet accruals were sufficient to cover the actuarial value of vested benefits at December 31, 1970, the date of the most recent computation.

Stock Options—Under the Employee Stock Option Plan, adopted in 1955 and discontinued in 1965, options were granted to key employees to purchase shares of the Company's Common Stock at 95% of the market value at the date of grant. The options became exercisable as to 40% of the total shares two years after date of grant with an additional 20% exercisable each year thereafter. They expire after ten years.

The 1969 Stock Option Plan provides for the granting of options to purchase 75,000 shares of the Company's Common Stock. Both qualified and nonqualified options are issuable to key employees of the Company and its 80%-owned subsidiaries at a price not less than the fair market value on the date of grant. The options are exercisable as to 50% of total shares three years after date of grant and as to all shares after four years. Qualified and nonqualified options expire after five and 10 years, respectively.

Changes during 1971 in options outstanding were as follows:

	1955 Plan		*1969 Plan*	
	Average Price	*Number of Shares*	*Average Price*	*Number of Shares*
Outstanding January 1, 1971	$18.85	6,630	$29.85	45,300
Exercised	18.81	(3,030)	—	—
Outstanding December 31, 1971	18.88	3,600	29.85	45,300

Stockholders' Equity—Certain loan agreements of the Company and the provisions of the Certificate of Incorporation relating to the Cumulative Preferred Stock, Series A, contain, among other things, covenants relating to the maintenance of financial ratios, indebtedness and payment of cash dividends. At December 31, 1971, retained earnings of approximately $8,760,000 were free from the most restrictive of such covenants.

The Cumulative Preferred Stock, Series A, is redeemable at $100 a share at decreasing premiums plus unpaid dividends. The Company must make annual sinking fund payments sufficient to redeem 5,042 shares at par plus unpaid dividends. Accordingly 5,042 shares of the Series A were redeemed during 1971.

Each share of the Cumulative Preference Stock, 5.20% Series, is convertible into 2.53 shares of Common Stock at any time prior to June 1, 1982. Commencing June 1, 1983 the Company must retire 5,158 shares annually at par plus unpaid dividends. The Company at any time may redeem the 5.20% Series at $100 a share at decreasing premiums plus unpaid dividends.

The 5% Convertible Debentures Due 1989 are convertible into Common Stock of the Company at $50.02 a share.

At December 31, 1971, 434,024 shares of the Company's authorized and unissued Common Stock were reserved for issuance upon conversion of the 5.20% Series and 499,800 shares were reserved for conversion of the Debentures.

During 1971, 3,030 Common treasury shares were sold to optionees under the Employee Stock Option Plan.

Commitments and Contingencies—The Company and its subsidiaries have long-term leases expiring more than three years after December 31, 1971 on service stations, office space and other facilities. Minimum annual rentals under these leases without reduction for related rental income will approximate $5,379,000 through 1981, then $3,268,000 through 1991 and will decrease to approximately $670,000 thereafter. The leases generally contain multiple renewal options and leases on service stations provide that the lessee shall pay ad valorem taxes and certain other charges. At December 31, 1971, commitments for capital expenditures were approximately $96,000,000 and contingent liabilities under pipeline throughput agreements were $4,460,000. The Company has agreed to borrow $25,000,000 at 8¼% from an institutional lender on April 1, 1972.

Any additional liability arising from the conversion of long-term debt payable in foreign currencies will be recognized as the principal payments become current. Had all such long-term debt at December 31, 1971 been converted at year-end rates an additional liability of $1,946,000 would have resulted.

LONG-TERM DEBT—DECEMBER 31, 1971

	Due Within One Year	Long-Term
LONG-TERM NOTES PAYABLE		
MURPHY OIL CORPORATION		
6¼% due 1972 to 1983	$ 2,400,000	26,400,000
Payable to banks, 5¾%* due 1973	—	3,333,000
Payable to foreign bank, 6⅞%* due 1974	—	3,602,000†
7¼% due 1973	—	2,303,000†
Other due 1972 to 1983	132,000	1,022,000
Total Company	2,532,000	36,660,000
SUBSIDIARIES		
Mortgage note, 6½%* due 1972 and 1973	2,500,000	2,500,000
5.32% due 1972 to 1976	1,400,000	5,600,000
Mortgage notes, 5½% due 1972 to 1983	333,000	4,076,000
Payable to foreign banks:		
6½% due 1972 to 1975	7,208,000†	2,387,000†
6¾% and 7¾% due 1973 and 1976	—	11,488,000†
Mortgage note, 5½% due 1972 to 1979	794,000†	5,558,000†
7½% and 2⅞%* due 1972	8,674,000†	—
5½% due 1972 to 1975	422,000†	1,194,000†
7⁵⁄₁₆%* and 7⅝%* due 1972 and 1974	1,868,000	3,920,000
7⅛%* and 8⅛%* due 1976 and 1977	—	2,050,000
Payable to foreign branch of U. S. bank, 7⅛%* and 8⅛%* due 1976 and 1977	—	2,050,000
Other due 1972 to 1981	218,000	428,000
Total Subsidiaries	23,417,000	41,251,000
CONSOLIDATED LONG-TERM NOTES PAYABLE	$25,949,000	77,911,000
CONVERTIBLE DEBENTURES—Subsidiary		
5% Convertible Debentures Due 1989		$25,000,000

Amounts becoming due for the four years after 1972 are: 1973, $16,916,000; 1974, $13,961,000; 1975, $6,335,000; and 1976, $16,164,000.
*Interest rate fluctuates. †Payable in foreign currency.

Accountants' Report

THE BOARD OF DIRECTORS
MURPHY OIL CORPORATION:

We have examined the balance sheet of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1971 and the related statements of income and stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1971 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Shreveport, Louisiana
March 3, 1972

TEN-YEAR SUMMARY—(Dollars in thousands, except per-share amounts)

FINANCIAL	1971	1970	1969
Sales and other revenues:			
Oil, gas and refined products	**$273,921**	233,467	215,782
Drilling revenue	**42,372**	35,653	28,541
Agricultural and timber products	**3,613**	1,943	2,027
Other income	**8,678**	6,501	5,646
Total revenues	**328,584**	277,564	251,996
Income before extraordinary items	**11,100**	9,337	6,228
Per Common and Common equivalent share	**2.01**	1.81	1.10
Net income	**11,100**	9,408	6,631
Per Common and Common equivalent share	**2.01**	1.83	1.19
Cash flow	**38,804**	33,219	24,909
Per Common and Common equivalent share	**7.58**	7.07	5.15
Capital expenditures:			
Production and exploration	**28,442**	36,909	16,001
Manufacturing	**9,333**	3,435	3,617
Marketing	**6,451**	8,217	7,825
Drilling barges and equipment	**16,341**	25,683	12,271
Farm, timber and other	**5,739**	6,320	1,607
Total capital expenditures	**66,306**	80,564	41,321
Funds provided by operations	**48,302**	37,595	30,011
Total assets	**492,123**	399,220	343,914
Working capital	**83,400**	53,849	69,769
Long-term debt	**102,911**	123,605	103,998
Stockholders' equity	**178,539**	142,680	137,549
Cash dividends—Preferred and Preference	**1,100**	1,124	1,134
Common	**2,966**	2,722	2,730
Shares of Common Stock outstanding at year-end (thousands)	**5,348**	4,537	4,547
Common stockholders at year-end	**5,322**	5,348	5,203
Employees at year-end	**3,250**	3,292	3,635
Salaries, wages and benefits	**$ 33,017**	29,396	27,020
PRODUCTION AND EXPLORATION (net)			
Crude oil and gas liquids produced—barrels a day	**44,989**	43,197	37,448
Natural gas produced—MCF a day	**65,105**	61,710	60,334
Wells completed:			
Oil wells	**24**	12	5
Gas wells	**—**	3	4
Dry holes	**24**	17	25
Oil and gas wells owned	**771**	580	588
Undeveloped acreage (thousands of acres)	**8,628**	7,476	3,713
MANUFACTURING			
Refinery inputs—barrels a day:			
At Company refineries	**64,043**	59,573	56,590
At other refineries	**50,283**	37,897	33,805
Refining capacity—barrels a day	**68,000**	68,000	60,000
MARKETING			
Products sold—barrels a day:			
Gasoline	**70,232**	63,068	55,799
Distillates	**34,067**	31,466	29,637
Residuals	**20,962**	19,093	15,818
Asphalt	**3,469**	2,659	3,180
Total products sold	**128,730**	116,286	104,434
Branded retail outlets—leased and owned	**928**	871	942
others	**1,370**	1,305	1,332

1968	1967	1966	1965	1964	1963	1962
182,884	171,706	158,973	142,549	130,887	125,216	122,174
27,418	24,161	19,557	15,956	12,404	9,258	6,962
1,518	1,619	1,330	1,203	1,189	1,241	1,136
2,731	1,701	2,372	1,275	904	790	718
214,551	199,187	182,232	160,983	145,384	136,505	130,990
7,020	8,786	8,102	6,204	4,159	4,982	2,796
1.28	1.88	1.82	1.42	1.01	1.22	0.65
7,918	8,330	8,102	6,204	4,159	4,982	2,796
1.48	1.77	1.82	1.42	1.01	1.22	0.65
24,274	23,753	22,383	19,888	16,181	16,315	14,664
5.18	5.62	5.48	4.95	4.11	4.15	3.72
19,428	18,655	11,554	18,495	11,097	6,373	12,903
1,673	1,818	2,524	533	558	293	1,900
6,223	5,888	4,280	3,226	3,124	2,225	3,457
3,209	6,803	13,023	10,930	8,391	3,784	2,750
887	839	281	240	430	110	126
31,420	34,003	31,662	33,424	23,600	12,785	21,136
30,259	28,238	26,845	22,277	17,639	17,026	15,389
283,709	267,791	229,035	203,622	174,108	159,083	156,617
39,727	42,409	34,180	28,566	18,233	20,577	18,632
64,979	64,856	60,750	54,254	47,503	43,629	45,311
135,032	130,826	109,068	103,586	85,152	83,267	80,589
1,432	1,198	998	686	254	263	271
2,466	1,974	1,938	1,936	1,935	1,931	1,919
4,549	3,990	3,876	3,876	3,871	3,863	3,856
5,208	4,980	5,228	4,973	5,417	5,220	5,600
3,662	3,873	3,634	3,879	3,585	3,418	3,415
24,504	23,881	21,347	18,650	16,357	15,300	15,196
22,973	20,241	19,581	18,407	15,914	15,337	15,729
55,445	51,679	49,556	51,581	56,461	58,208	65,733
15	26	29	37	36	28	18
3	3	2	3	5	4	6
20	18	35	32	14	17	15
597	619	602	592	548	484	458
2,657	2,436	2,339	2,965	3,709	2,247	6,086
51,790	48,142	45,411	41,057	39,271	38,581	34,096
26,473	12,858	10,630	7,672	4,011	4,000	3,989
55,000	50,000	47,000	44,000	43,000	43,000	40,000
46,279	43,137	38,808	33,052	29,639	25,666	22,973
25,497	20,608	18,825	17,471	14,355	16,975	12,011
13,470	11,781	10,419	10,205	12,825	11,699	8,041
2,790	2,597	2,019	1,123	1,082	773	731
88,036	78,123	70,071	61,851	57,901	55,113	43,756
928	833	779	735	681	636	607
1,103	995	665	598	470	337	333

MURPHY
OIL CORPORATION

BOARD OF DIRECTORS

*C. H. Murphy Jr. (1950)
President

*J. A. O'Connor Jr. (1955)
Chairman of the Board

*Charles J. Hoke (1950)
Senior Vice President

*Charles E. Cowger (1968)
Senior Vice President

*William C. Nolan (1950)
El Dorado, Arkansas
Partner, Munoco Company

Dr. John W. Deming (1950)
Alexandria, Louisiana
Physician

F. B. Ingram (1961)
New Orleans, Louisiana
Chairman of the Board, Ingram Corporation

James R. Jones (1968)
Controller

The Rt. Rev. Christoph Keller Jr. (1950)
Little Rock, Arkansas
Bishop, Episcopal Diocese of Arkansas

Ralph Owen (1960)
Nashville, Tennessee
Formerly Chairman of American Express Company

David T. Searls (1969)
Houston, Texas
Senior Partner, Vinson, Elkins, Searls & Smith

*Member of the Executive Committee
(Year of election to the Board indicated in parentheses)

OFFICERS

C. H. Murphy Jr., *President*

J. A. O'Connor Jr., *Chairman of the Board*

Charles J. Hoke, *Senior Vice President*

Charles E. Cowger, *Senior Vice President*

John L. Solomon, *Vice President*

Paul C. Bilger, *Vice President*

Ben S. Smith Jr., *Vice President*

O. Paul Doyle, *Vice President*

James R. Jones, *Controller*

L. R. Beasley, *Treasurer*

Jerry W. Watkins, *Secretary and General Counsel*

TRANSFER AGENTS AND REGISTRARS

Common Stock
Transfer Agents
Chemical Bank, New York
Mercantile Trust Company, N.A., St. Louis

Registrars
Morgan Guaranty Trust Company of New York, New York
St. Louis Union Trust Company, St. Louis

Cumulative Preferred Stock, Series A
Transfer Agent and Registrar
Murphy Oil Corporation, El Dorado, Arkansas

Cumulative Preference Stock, 5.20% Series
Transfer Agent
Chemical Bank, New York

Registrar
Morgan Guaranty Trust Company of New York, New York

AUDITORS

Peat, Marwick, Mitchell & Co., Shreveport, Louisiana

PRINCIPAL SUBSIDIARY COMPANIES

Deltic Farm & Timber Co., Inc. (100%)
Farm and timber properties in Arkansas and Louisiana and sawmill operations

Murphy Eastern Oil Company (100%)
Coordination of the Company's activities in Europe, Africa and the Middle East

Murphy Oil Company Ltd. (88%)
Exploration for and production of crude oil and natural gas and retail and wholesale marketing of petroleum products in Canada

Murphy Oil International Finance Corporation (100%)
Financing of capital requirements of foreign operations

Murphy Oil Trading Company (100%)
Purchase, sale and transportation of crude oil and refined petroleum products

Murphy Oil Venezolano, C. A. (100%)
Exploration for and production of crude oil and natural gas in Venezuela

Ocean Drilling & Exploration Company (51%)
Drilling contracting and exploration on continental shelves worldwide—Oil and gas production in the Gulf of Mexico

Annual Meeting

The annual meeting of the stockholders of the Company will be held May 3, 1972 at the South Arkansas Arts Center, El Dorado, Arkansas.

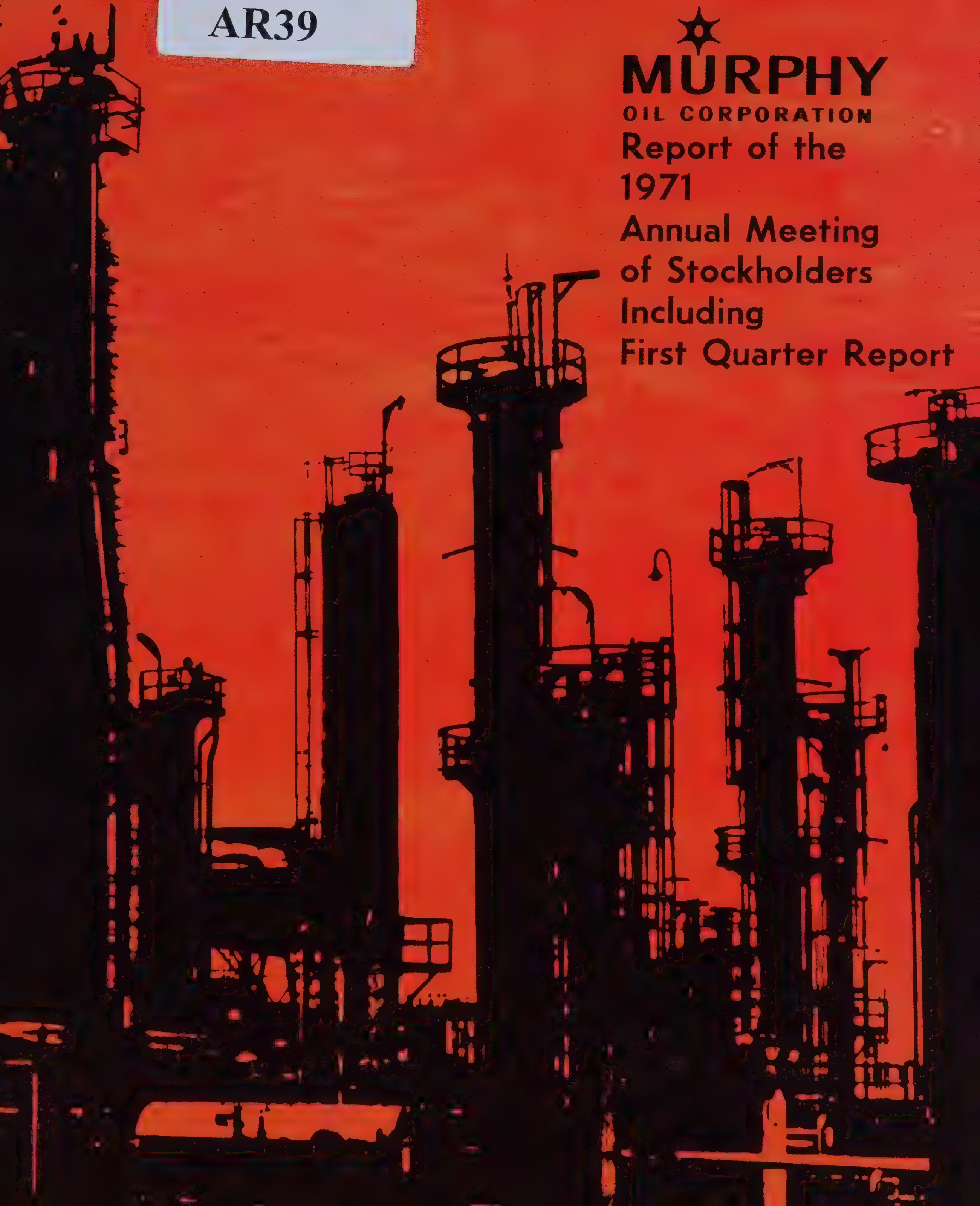
Printed in the United States of America

SPUR

MURPHY OIL CORPORATION
200 JEFFERSON AVENUE
EL DORADO, ARKANSAS 71730

MURPHY
OIL CORPORATION

Report of the 1971 Annual Meeting of Stockholders Including First Quarter Report



Proceedings

The meeting was called to order by J. A. O'Connor Jr., chairman of the Board, who declared a quorum present with 4,224,739 shares of Common Stock, 92.6 percent of the total outstanding, represented in person or by proxy.

Mr. O'Connor recognized delegations of students and faculty members from Arkansas AM and N College at Pine Bluff, Arkansas Polytechnic College at Russellville, Grambling College at Grambling, Louisiana, Louisiana Tech University at Ruston, Southern State College at Magnolia, Arkansas and El Dorado High School who attended the meeting as guests of the Company.

He also introduced Norman Bartylla of the Superior Refinery, Lester P. Falgout of the Meraux Refinery, Loren Olson of the Minneapolis Region of the Marketing Department and Justine Smart of the Longview District of the Production and Exploration Department, who attended the meeting as special guests representing employees from locations other than El Dorado.

Management's nominees for directors were presented by C. H. Murphy Jr., president of the Company. They are:

Charles E. Cowger
Dr. John W. Deming
Charles J. Hoke
F. B. Ingram
James R. Jones
The Rt. Rev. Christoph Keller Jr.
C. H. Murphy Jr.
William C. Nolan
J. A. O'Connor Jr.
Ralph Owen
David T. Searls

The stockholders adopted a resolution of appreciation for the services of Bruce K. Brown, a director since 1960 and a former chairman of the Board. Mr. Brown had reached the retirement age for directors and did not stand as a candidate for re-election. Mr. Murphy presented Mr. Brown a copy of the resolution and a plaque.

The stockholders of the Company met May 5, 1971 at the Fine Arts Center at El Dorado, Arkansas.

The President's Statement

Mr. Murphy made the following report:

A year ago at this meeting, we stood at the turn of a decade. Accordingly, it seemed appropriate to close the books on the '60s by summing up 10 years of operations and to open accounts of the '70s by attempting a long look ahead. My colleague Jack O'Connor undertook the first half of that task and I, the second.

Today, we will merely render an accounting of how it all looks to us. Now based on the early returns — one year only — it seems that expected events are occurring and that anticipated changes of trend are indeed in motion but perhaps compressed into a much shorter span of time than could have then been thought likely.

- More pointed assertion of government (sovereign) authority
  - in consuming countries to protect the environment
  - in producing countries to increase the take
- Shortage of indigenous crude in the Lower 48
- Appearance of a worldwide energy gap, and
- Emphasis on offshore exploration around the world.

These were among the events and trends we identified on this platform and in the Annual Report. How did they affect Murphy Oil Corporation's business in the first quarter? And, likely, through the year? What are we doing about it? Well, so far we've profited financially from this welter of change. And, I think, that early evidence indicates that our resources were deployed prior to the acceleration of change in such a manner as to improve our basic competitive stance. But now, as the political saying goes, we're running scared.

"The Company had higher net income in the first quarter. It was $3,360,000, 67 cents a share."

As you undoubtedly know by now, the Company had higher net income in the first quarter. It was $3,360,000, 67 cents a share, and that is up from the $2,340,000 or 45 cents a share earned in the first quarter last year. Funds provided by operations — that is, the funds that are actually generated by the business — were $11,500,000, up from $8,100,000 in the first quarter of last year.

Sales and operating revenues reached $81,000,000, compared with $66,000,000 a year ago, and operating results were without

exception at record levels — crude production of 44,700 barrels a day, natural gas production has resumed its upward move and is at 69,000,000 cubic feet a day, refinery runs at our own plants in the United States 65,000 barrels a day, and finished petroleum products sold 135,000 barrels a day.

We reported last week that the increased earnings resulted from improved volumes and refined product prices in Canada and Western Europe, gains from the Company's international oil trading and transportation activities and increased drilling operations from the enlarged drilling barge fleet. There were some negative factors, and these strong points more than overcame the drag effect on earnings of very poor refined product prices in the United States, quite high exploration expenses and the increased cost of crude oil.

"The first quarter did not reflect the full impact of greater payments to governments in the oil producing countries overseas."

That may seem pretty heady stuff. But the news release that went out of the office included one more point that probably should be underscored now. It cautioned that the same rate of gain simply could not be expected throughout the year, and it said that the first quarter did not reflect the full impact of greater payments to governments in the oil producing countries overseas.

The possibility of an energy gap, dependence — in the next ten years ahead at least — on liquid petroleum to fill it and consequent shift from a buyer's to a seller's market didn't escape discernment by governments of producing countries. Their chiefs of state, cabinet ministers and civil servants are astute business people. Their ancestors were engaged in sophisticated commerce when ours were still in the Bronze Age. They point out that their oil is an irreplaceable natural resource, one that had been bringing in a buyer's market a price much lower than they and we thought desirable. Then, as that resource began to be sold abroad — in response to this trend toward a balanced market situation — for a more respectable price, the governments of the producing countries informed us that they expected more in net return from the petroleum that is being exported to the highly developed consuming nations. They observe that they will live up to their contracts, but they point out too that, as sovereign nations, they have the right to levy taxes on the resources of their own countries and on the export of commodities across their frontiers. We rebut that by saying, "Well, we've counted on stability." "Yes, we understand that, but as far as we are able to appreciate what's going on in your own country,

you have no guaranty from the United States government that it won't raise taxes or from any one of your states that it won't. And we understand from the international press that those units of government do exactly that with some regularity." And they do. So whether we agree with this line of reasoning or not, we have to admit that we do understand it.

"If the bargain holds, and I for one think it will, we will have paid dearly, but we will have bought much."

Two-thirds of Murphy's crude oil reserves are in member nations of the Organization of Petroleum Exporting Countries. And about half the crude — whether it is proprietary or purchased — flowing daily in our supply stream derives from them. As Dr. Johnson observed about the effect of hearing a sentence to be hanged, this concentrates one's mind quite wonderfully.

Result of the recent round of negotiations in Tehran and Tripoli and the legislative acts in Caracas has been to increase the tax-paid cost of our crude from the Persian Gulf, Libya and Venezuela by 30 cents, 63 cents and 39 cents, respectively. An escalation formula was agreed in the first two of those to deal with the problem of inflation. And five years of stability on which plans can be based is promised. If the bargain holds, and I for one think it will, we will have paid dearly, but we will have bought much.

Following these settlements, prices for refined products in Europe and that part of Canada supplied by overseas crude which, as I have said, were already strengthening, and had been for almost a year, in consequence of a better balance between supply and demand and because of higher ocean freight rates, rose further in response to the cost of the round of settlements with the producing countries. So far, so good. But now let's look at the U.S.A.

Here and in Western Canada, the price of crude oil moved up about 25 cents a barrel near year-end 1970. Product prices followed crude upward. But attrition in the refined products market set in within 30 days and continues at this moment, and at present retail gasoline prices are right back where they were in early 1969. Now that is painful. Because it is two crude oil price increases and two wage hikes ago. We've been perplexed with this problem. Not only owing to its drag on stateside profits, but to form a judgment concerning whether it is a foretoken of things to come in Europe and Canada. We have known that gasoline stocks in this country were too high. Now that definitive first-quarter statistics are available, it's clear that consumption scarcely showed any increase

at all in the first quarter. Since the level of demand had been very high in 1970 — the early months of 1970 — we had expected that consumption growth in the first quarter of '71 would be at a somewhat slower comparative pace than for the whole year. But the total product consumed — not just motor fuel — was virtually unchanged. Absolutely flat. Now with every distributor in the market — Murphy included — trying to increase his own sales, that spelled trouble.

"Our exploration costs were very high in the first quarter, $4 million compared to $2.6 million."

We think prices will improve as gasoline demand picks up seasonally. And that growth compared to a year ago will be reinvigorated. But consumers' habits may be changing again. The automobile may seem to be of less importance. We know they are buying smaller cars. So this will bear watching. We may be at another turn.

Well, is it a forerunner of a similar squeeze abroad? Not necessarily. There, even at higher price levels, the growth in consumption is still vigorous. Some softness, it's true, can be detected here and there but, so far, this seems related to falling tanker charter rates rather than to any consumer resistance or to aggressively competitive pricing as in the U.S.A. Oil fields in the Middle East and Venezuela are enormous compared to ours. Therefore, the operating cost element is low when related to the element of cost comprising all payments to government. And unlike operating expenses, which whether we like to admit it or not can always be hammered down a little bit more, once payments to government are imbedded in the cost structure, they simply aren't responsive to any measure that a commercial enterprise can invoke. So we do expect prices in Europe and Eastern Canada, when stabilization occurs, to fluctuate seasonally and in response to competitive pressures from a new baseline that will reflect the recent round of crude cost increases.

Now, our exploration costs were very high in the first quarter, $4 million compared to $2.6 million. We had some help in the first quarter from the international trading activity that I referred to earlier and layoff of some shipping that is a recurring part of our business, but it comes quite irregularly, and we had rather an extraordinary benefit from that in the first quarter. We expect virtually none in the second quarter of this year. On the other hand, exploration costs were quite high, so there is somewhat of a

rough balancing from those two factors. The full year's profits will hinge on the extent of price recovery in the United States, notably in retail gasoline, on the exact level at which the expected stabilization takes place in our Canadian and European markets and on return of exploration charges to a more normal level. We expect a strong assist from our worldwide offshore drilling business throughout the year. And probably that's a good lead into the capital expenditure program.

"Murphy was the first company to introduce leadless gasoline in six U. S. markets."

I spoke earlier of having had our resources deployed in the right places at about the right time. Consuming nations and integrated oil companies are hastening efforts to diversify crude supplies. The best possibilities of accomplishing this are offshore around the world and in the Arctic. Our ODECO company, 51 percent owned, was ready when momentum of offshore development picked up around the world. Already one of the leading contractors anywhere and the leader in the Gulf of Mexico and the North Sea, ODECO bought the business of a competitor and undertook new construction during 1970 for a total outlay of $25.5 million. This week, ODECO signed a letter agreement to build in Norway a new barge of its advanced design. These are self-propelled semi-submersibles, capable of wide-ranging, extreme water-depth service. And there will be others. Total outlay for drilling barges this year may be in the order of $20 million. The decks are being cleared for this program in two ways. Firstly, by having called ODECO's convertible bonds for redemption, which resulted in the conversion of over 98 percent of the issue into Common Stock. And secondly, by forming a new oil and gas company which will free ODECO's funds provided by operations for drilling barge construction.

Murphy was the first company to introduce leadless gasoline in six U.S. markets. Hardware will be installed over the remainder of 1971 and 1972 to extend this capability to every one of our retail outlets. During 1971, depending somewhat on the extent that additional capacity is provided, along with the process improvements, capital expenditures in the U. S. refining sector will be about $16 million.

A year ago, we reported that alternatives to our thwarted plans for a refinery in Scotland were being investigated. It turned out that the best of these was a plant near London in partnership with

the Italian government company, E.N.I. A government planning inquiry into this proposal has just been completed, and along with our partner, we await its outcome. If approved, the joint refinery will be a large undertaking, important indeed to our Italian partner and to ourselves, but little in the way of actual construction can be accomplished before year-end. I therefore would not expect capital expenditures to take place in 1971 to any significant degree on that project.

Capital expenditures and direct costs for exploration and production will be about $26.6 million.

The new discovery in Libya on Concession 104-A has been confirmed by a northward stepout, and a south outpost is drilling now. If that well is productive, development of this field will continue, and we expect to bring it on-stream during the year. The settlement with Libya's Revolutionary Council included our agreement to continue exploration during its five-year term. We have identified several prospects worthy of testing, and they will be drilled in accordance with our agreement with the Revolutionary Council. In Iran, an appraisal well will be drilled near our 1967 discovery on the "W" structure leading, we hope, to a development program looking to placing that field on-stream in early 1972.

Development in Canada will be along the route of our new crude oil pipeline from the Lone Rock producing area in Saskatchewan to Kerrobert, where the line connects with the Interprovincial trunk to our Superior Refinery. As many as thirty development wells and perhaps twenty wildcats will be drilled there. Rank exploration in Canada is in the Arctic islands and on the Eastern Continental Shelf. Seismic work has just been commenced in the islands and is quite well along on the eastern shelf offshore.

A joint well in the British sector of the North Sea (actually our interest there is quite small, 7 percent or less) has completed drilling and is now being tested. We don't know the outcome and will not know, I suppose, for several days or perhaps even weeks yet. We expect to resume testing of our permits on the Norwegian side of the median line during the third quarter.

Right now, we are drilling two extremely deep wells in the Jurassic trend of Mississippi-Alabama, and we are supporting two others. One of the latter looks like it will be a discovery, but we

"The new discovery in Libya on Concession 104-A has been confirmed by a northward stepout, and a south outpost is drilling now."

really don't know yet. If it is a discovery and covers any sizable area, it will affect Murphy and we'll be very glad to see it. I'm rather embarrassed to have to say that one of the two directly owned wells is the very same that was drilling when we met here last year. It's now 12 months and $4 million later, and we are still trying to see the Smackover formation. We are right at the frontier of technology (and maybe a little beyond it!) but we are going to see it through, and obviously, we think that the horrible risk is justified.

"Now this capital program, if it all comes to pass, will add up to around $75 million."

The exploration program probably will include resumption of testing our still keenly interesting permits in the Cook Strait of New Zealand.

Now this capital program, if it all comes to pass, will add up to around $75 million. It includes the completion of a $1.5 million sawmill, an expenditure which, symbolically at least, is as important as any. After forty years, we've come full circle. Startup of the mill in March was ahead of schedule and was as trouble free as anything of its kind in recent memory. The first lumber sales were at prices $10 a thousand board feet better than forecasted. We are proud of it.

Thank you, ladies and gentlemen. My associates and I will be glad to answer any questions.

Questions from the Floor

The Energy Gap

Q. *You mentioned an energy gap rather than an energy crisis. I assume your use of the word "gap" rather than "crisis" was not an accident.*

A. Well, I don't think we have a crisis. I haven't looked up the word "crisis" in Webster's in a long time, but I think it means roughly a concentration of problems into a very, very short period of time that will be immediately resolved one way or the other. Country people used to speak of the crisis in influenza and the patient was either going to die right then or make a turn toward recovery. So I use "energy gap" rather than "crisis" because we don't have that sort of thing. We've got a serious problem,

and we have a gap appearing. That gap will be filled one way or another. It may be filled by a reduction in demand. It may be that we couldn't use and shouldn't be using all of this energy that appears will be demanded simply from a projection of the curves. You know, the students and ecologists are trying to tell us something. They wonder whether we ought to be burning up all of this gasoline and whether we ought to be carving up the land-scape with all of these interstate highways. I don't know, but I think there's a possibility that the gap will be closed by a lowering, not of demand in absolute terms, but in a sloping off of the growth curve as well as bringing forth new supply. So you're right, the choice of the word "gap" rather than "crisis" was not an accident.

"Sooner than we had thought five years ago, oil from tar sands and oil shale probably will be needed."

Q. *Part of that gap may be filled with synthetics. Would you tell us about your tar sands program. Murphy has some interests up in Canada, I believe.*

A. Right. I agree with the comment, and sooner than we had thought five years ago, oil from tar sands and oil shale probably will be needed. Murphy is a member of a group—we own 12 per-cent, I believe—that has one of the largest holdings of the minable tar sands in the entire tar sands belt on the Athabasca River in Alberta. Petrofina is the operator for the group. I recently asked their view of when we ought to get going and when we could get going, and their off-hand reaction was that we should be looking to a 100,000-barrel-a-day plant, which would be 12,000 barrels to Murphy, and that construction ought to be commenced in 1973 and 1974. We do have an enormous supply of hydrocarbons avail-able to us and the 100,000 barrels a day is by no means the limit. It only appears that we should come on in increments of about that size.

Q. *Do you have any idea what a plant of that size will cost?*

A. Well, everyone should say "I don't know" at least once a day, and now's my time. The cost of the Great Canadian Oil Sands project has gone up and up and up. Based on that, it would be $200 million or more. We would hope to benefit from Great Canadian's learning curve and eliminate some of the mistakes they, as pioneers, had to make.

Exploration in Tunisia

Q. *In your review of exploration plans for this year, you didn't mention Tunisia, and I believe you've taken an interest there. What are your plans as far as Tunisia is concerned?*

A. We have a tentative program I didn't mention because it's very, very new. As a matter of fact, the notice of granting of a permit to us hasn't yet appeared in the official gazette. The government has announced to the press that they are awarding the permit to Murphy and its German and Canadian partners, but it won't be an accomplished fact until the notice appears in the official gazette. This is mostly offshore, a little spilling over onto the onshore, and interest is heightened by recent discoveries across the line in the Libyan offshore.

"We do have a quota that will enable our Superior Refinery to operate at a reasonable level."

Imports of Foreign Crude Oil

Q. *Do you expect any problems in getting your Venezulean and Canadian production into the United States this year, and what will your import quota be for 1971?*

A. Canadian oil is subject to a mandatory control program. We do have a quota that will enable our Superior Refinery to operate at a reasonable level — not anything like what Bob Ponder (Manager, Superior Refinery) who's here today, would say would give him the best unit cost and not really at a level that's required to supply all of our market demand. But we do have enough oil there, nevertheless, to operate in a reasonable manner, and we may use some of our offshore quota to supplement the supply in Canada. Our Venezuelan crude is moving, in effect, to our Meraux Refinery. We trade that oil, coming in under our quota, to refiners on the East Coast for Gulf Coast crude that comes directly to the Meraux Refinery. Our crude oil quota is subject to some uncertainty this year because of litigation we've had with the Oil Import Administration. We thought that our quota was erroneously computed and sued to have it corrected in the Federal courts. The trial court agreed with us and did increase our quota for 1970 and further gave us a special quota for 1968 and 1969. The Circuit Court of Appeals in St. Louis reversed the trial court, and we might have to give back the tickets. If we have to give them all back, we would have only about 2,000 barrels a day for this year. If we don't have to give them back, our normal quota is 6,400 barrels a day. We're way

ahead as a result of this thing, and we're not deeply concerned about it. With the present tanker rates, the right to import crude oil is nothing like as valuable as formerly, and the rights to import crude oil, which we doubt should be traded but which are traded under the rules, can be bought. If we have to, we would plan simply to purchase import rights from other refiners and bring in the crude we need.

"With the present tanker rates, the right to import crude oil is nothing like as valuable as formerly."

Dividend Policies

Q. *I have been interested in Murphy's dividend policies. I see that Ocean Drilling & Exploration Company paid several stock dividends in the past eight years and then split 2 for 1. Murphy has been a little bit behind with only 2 percent paid in 1962. I wonder whether we might look forward with some hope to a stock dividend from Murphy in the next year or so.*

A. Mr. Ochs is smoking me out here. We had hoped to increase the cash dividend before this time. We haven't increased it because the demand for capital is so enormous, and it appears now that the demand for capital over the '70s, if this energy gap is going to have to be filled, will continue unabated, and therefore it may be difficult to increase our cash dividend. If that goes on and there's no prospect whatever of increasing the cash dividend, I am sure our Board would examine the question of going back to the precedent that was almost set in the early '60s of a combination of cash and stock.

Q. *I'd far rather see a stock dividend than a cash dividend any time. I think a lot of stockholders would feel the same way.*

A. We hear you, Mr. Ochs.

Lead-free Gasoline

Q. *Tell us a little of the results of the lead-free gasoline program. I assume it was satisfactory since you say it is continuing.*

A. Moderately satisfactory. We priced our lead-free gasoline head-on with our former leaded regular. We reasoned that the consumer, despite his idealism, would not be willing to express that idealism by paying a higher price for a product simply to improve the atmosphere just a little. Therefore, our sales of lead-

free gasoline have been higher, as best we are able to determine, than the sales of our competitors who have made a lead-free gasoline available but at a higher price. The immediate response was excellent. We put on a major advertising and promotion campaign, and the response was quite good. Then there was a bit of reaction from that as the effect and the newness wore off. At the present, we are satisfied, but we really aren't pleased with retail gasoline sales at all.

Persian Gulf Activities

Q. *The Annual Report mentioned that the Sassan Field would be marginally off this year because of a salt problem. Is the de-salting plant on-stream? Do you expect to be able to move ahead in 1972? Also, has anything come of that program that was working 70 miles north of the Sassan Field?*

A. Let me answer the second half of that question first. The area 70 miles north of Sassan Field is the "W" structure to which I referred in the report here earlier. We found an oil field there; I believe we've completed two wells. It doesn't appear that it can be anything like as large as Sassan, but we simply don't know. We've agreed with our partners to drill further appraisal wells there. Since we do have the shore facilities already installed, even a much smaller oil field would be viable. We really hope we'll be able to develop that and add to our production.

Now, answering the question about the salt content of Sassan crude, which is a specification problem for export, Mr. Hoke, is the hardware being installed now?

Mr. Hoke: Yes, but it won't be in for several months yet.

Mr. Murphy: The necessary facilities to increase our de-salting capabilities are being installed, and we are continuing to suffer some stricture there because of inability to meet export specifications at the high rates of production. I would think it would be early 1972 before we are able to step back up. We've had some trouble also, I probably should say now in this context — minor things which in the aggregate add up. The usual spring storms in the Persian Gulf have delayed liftings, and that's caused demurrage there and that sort of thing. You forget about it in a few weeks time, but here at this very moment, it's a bit nagging.

"Since we do have the shore facilities already installed, even a much smaller oil field would be viable."

Mr. Chairman, I'll turn the meeting back to you.

Conclusion

Jerry W. Watkins, secretary of the Company, announced that 4,224,739 shares represented at the meeting had been voted in favor of the election of the management's nominees for directors, and Mr. O'Connor declared the slate elected.

There being no further business, the meeting was adjourned.

Board Action

The Board of Directors re-elected all officers of the Company, including C. H. Murphy Jr., president; J. A. O'Connor Jr., chairman of the Board; Charles J. Hoke and Charles E. Cowger, senior vice presidents; John L. Solomon, Paul C. Bilger, Ben S. Smith Jr. and O. Paul Doyle, vice presidents; James R. Jones, controller; L. R. Beasley, treasurer, and Jerry W. Watkins, secretary.

The Board declared quarterly dividends of 15 cents a share on the Common Stock of the Company, \$1.56¼ a share on the Cumulative Preferred Stock, Series A and \$1.30 a share on the Cumulative Preference Stock, 5.20% Series. The dividends were ordered paid June 1, 1971 to stockholders of record May 17, 1971.

The Board also authorized the filing of a registration statement with the Securities and Exchange Commission relating to a proposed offering of 650,000 shares of Common Stock.

CONSOLIDATED STATEMENT OF INCOME

	Quarter Ended March 31, 1971	1970
SALES AND OPERATING REVENUES	$81,386,000	66,158,000
COSTS AND DEDUCTIONS		
Crude oil, products and operating expenses	54,917,000	46,751,000
Exploration expenses	3,974,000	2,588,000
Selling and general expenses	5,215,000	5,060,000
Depreciation and depletion	5,168,000	3,849,000
Taxes other than income taxes	1,261,000	1,029,000
Interest expense	2,018,000	1,840,000
Federal and state income taxes	820,000	793,000
Foreign income taxes	3,295,000	1,455,000
Minority interests' income	1,360,000	844,000
Total costs and deductions	78,028,000	64,209,000
INCOME BEFORE EXTRAORDINARY ITEM	3,358,000	1,949,000
Extraordinary item — reduction in crude cost due to additional import quota for 1968 and 1969, less income taxes	—	395,000
NET INCOME	$ 3,358,000	2,344,000
Per Common and Common equivalent share:		
Income before extraordinary item	$ 0.67	0.36
Net income	0.67	0.45
Weighted average number of Common and Common equivalent shares outstanding	4,595,003	4,546,020

The above interim statement is based in some respects on estimates subject to year-end adjustments. Such statement has not been examined by independent accountants.

OPERATING SUMMARY

	Quarter Ended March 31, 1971	1970
Net crude oil and natural gas liquids produced—barrels a day	44,742	43,606
Net natural gas produced—thousands of cubic feet a day	69,222	59,526
Refinery crude runs—barrels a day	65,653	57,644
Finished petroleum products sold—barrels a day	135,752	117,679

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